Russia

Can privatisation deliver?

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Britain's Iraqgate

Who knew what, when

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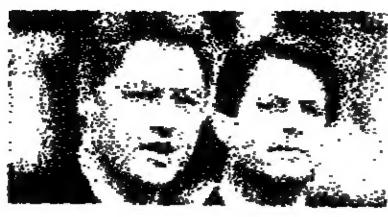

Brighter shade of green

Clinton's environmental outlook

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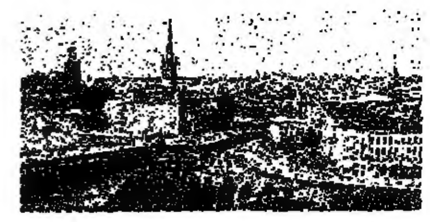

FINANCIAL TIMES

Europe's Business Newspaper WEDNESDAY NOVEMBER 11 1992 D8523A

Cartel body rules Metro-Asko deal anti-competitive

Germany's federal competition authorities provisionally ruled that the planned purchase by Metro, Germany biggest stores group, of a majority stake in Asko Deutsche Kaufhaus would be anti-competitive. The takeover would have created one of the world's largest retail groups with sales of more than DM70bn ($46bn). Page17

MacSharry returns: Ray MacSharry withdrew his resignation as the EC's chief negotiator in the farm trade talks after appeals from more than 50 countries for Europe and the US to avert a trade war. Page 4

United Biscuits, UK's largest snack maker, is to acquire the snack foods business of Coca-Cola Amatil, Australian beverage group, for A$430m ($307m) in cash. Page 17; Lex, Page 16

Monetary union plan: European monetary union could go ahead with an inner core of EC countries and Efta group members, according to a top economist at the Bundesbank. Page 16

Investors react to sell-off: Italian privatisation plans are encouraging speculation in state companies, nine of which had shares suspended after prices rose in the session by more than the 10 per cent limit. Page 3

Refugees leave Sarajevo: Moslem and Croat refugees fled Sarajevo for the Croatian port of Split after being trapped for more than seven months by a Serbian siege. Page 16

Cohen recruited to Republic:

Peter Cohen, former chairman of the Shearson Lehman brokerage subsidiary of American Express, is to become vice-chairman of the Republic New York banking group, where he will launch its newly approved securities business. Mr Cohen was also named to Republic's board and a member of the executive committee. Page 17

Chrysler, US vehicle maker, plans legal action against the European Commission in response to the Community's decision to impose a 10 per cent duty on imports of diesel-engined Chrysler Voyager vehicles from Austria. Page 4

TNT shares hit all-time low: TNT shares fell 12 cents to a record low of 53 cents after the Australian transport group announced equity-accounted net losses of A$65.1m ($46.5m). Page17

Bombay scandal claims victim: India's attorney general G. Ramaswamy resigned after intense public criticism of his role in the Bombay securities market affair. Page 6

'Solidarity pact' crumbles: IG Metall, Germany's powerful trade union, refused to renegotiate pay deals in the east or revise agreements on shorter working hours in the west. Page 2

Israeli show of strength: Israel sent tank and troop reinforcements to its northern border with Lebanon after two days of rocket attacks by Lebanese guerrillas. Biggest company seeks aid, Page 6

MPs found guilty: Jordan's state security court sentenced two MPs to 20 years in prison with hard labour after being found guilty of belonging to an illegal armed group which allegedly conspired to set up an Islamic state. Page 6

Japan relaxes share controls: Controls on share purchases by individual investors were relaxed by the finance ministry, but the announcement failed to revive stock exchange turnover. Page 6

Marsh & McLennan, world's biggest insurance broker, announced the £107m ($166m) acquisition of Frizzell Group, the UK financial services and insurance group. Page 17

UN wins control of Somali airport: Armed UN troops finally took control of Mogadishu international airport more than six weeks after first arriving in famine-hit Somalia.

Mexico plans austerity budget: The Mexican government plans a 1993 budget surplus of 1.7 per cent of gross domestic product, and forecasts an inflation rate of 7 per cent and growth of 3 per cent. Page 5

Chilean trial hits nerve: The start of a human rights trial – of the chief of Gen Pinochet's secret police – has shaken the fragile relations between Chile's civilian and military leaders. Page 5

■ STOCK MARKET INDICES		
FT-SE 100	2,714.8	(+19.2)
Yield	4.44	
FT-SE Eurotrack 100	1,053.85	(+9.76)
FT-A All-Share	1,284.89	(+0.7%)
Nikkei	16,437.11	(+20.06)
New York:		
Dow Jones Ind Ave	3,225.47	(−15.40)
S&P Composite	418.52	(+0.03)
■ US RATES		
Federal Funds	2⅞%	(3%)
3-mo Treas Bills: Yld	3.127%	(3.136%)
Long Bond	95⅛	(94⅞)
Yield	7.654%	(7.729%)
■ LONDON MONEY		
3-mo Interbank	7 1/16%	(Same)
Liffe long gilt future: Dec 102¼		(Dec 102)
■ NORTH SEA OIL (Argus)		
Brent 15-day (Dec)	$19.575	(19.225)
■ Gold		
New York Comex (Nov)	$329.7	(332.8)
London	$329.8	(334.45)

■ STERLING		
New York:		
$	1.5180	(1.5105)
London:		
$	1.514	(1.521)
DM	2.4175	(2.415)
FFr	8.18	(8.165)
SFr	2.175	(2.1675)
Y	188.25	(Same)
£ Index	77.5	(78.2)
■ DOLLAR		
New York:		
DM	1.5913	(1.60415)
FFr	5.3770	(5.4185)
SFr	1.4325	(1.4385)
Y	124.15	(124.275)
London:		
DM	1.598	(1.5885)
FFr	5.39	(5.3675)
SFr	1.436	(1.4255)
Y	124.4	(123.85)
$ Index	65.3	(64.9)
Tokyo close Y 124.37		

Austria	Sch35	Greece	Dr250	Lux	LFr60	Qatar	QR12.00
Bahrain	Dn1.250	Hungary	Ft182	Malta	Lm0.50	S.Arabia	SR11
Belgium	BFr60	Iceland	IKr180	Morocco	MDh13	Singapore	S$4.10
Bulgaria	Lv25	India	Rs20	Neth	Fl 3.50	Spain	Pta200
Cyprus	C£1.00	Indonesia	Rp3800	Nigeria	Naira20	Sweden	SKr14
Czech	Kcs35	Israel	Shk5.50	Norway	NKr15.00	Switz	SFr3.00
Denmark	DKr14	Italy	L2900	Oman	OR1.50	Syria	SyP50.00
Egypt	E£4.50	Jordan	JD1.50	Pakistan	Rs35	Thailand	Bht50
Finland	FM12	Korea	Won 2500	Philippines	Pso45	Tunisia	Din1.250
France	FFr2.50	Kuwait	Fils 600	Poland	Zl 22,000	Turkey	L6000
Germany	DM3.30	Lebanon	US$1.25	Portugal	Es190	UAE	Dh10.00

UK and France argue on Maastricht timing

By Our Foreign and Political Staff

BRITAIN and France were yesterday involved in a simmering diplomatic row following a sharp reply by Mr John Major, the UK prime minister, to President François Mitterrand's criticism of Britain's new timetable for the ratification of the Maastricht treaty on European union.

Answering Mr Mitterrand's attack on the slowness with which the British government intended to proceed with ratification, Mr Major issued a vigorous warning that the timing of ratification was a matter for the UK, and not for its European Community partners.

Mr Major told British MPs he had written privately to Mr Mitterrand, expressing his views. He added: "I am quite prepared to state publicly that the passage of the Maastricht bill is a matter for the British parliament and for the British government."

Mr Douglas Hurd, foreign secretary, also rejected the French criticism, saying: "A treaty delayed is better than a treaty destroyed or lost". The treaty would undergo in Britain more detailed scrutiny than in any other EC state, he claimed.

Britain had always made it clear to its EC partners that this

■ Struggling to keep Maastricht train on rails Page 2
■ Dunkel's uphill task Page 4
■ EC stirs an export credit hornets' nest Page 4
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■ Inner core membership for Emu suggested Page 16

would take a long time, Mr Hurd said.

It was natural enough that countries which had already ratified the treaty felt a certain amount of anxiety. But Mr Hurd said that, in spite of that anxiety, there was a feeling that the treaty would be ratified.

Mr Major's linking of the French president's remarks on Maastricht with the need to prevent a trade war, was seen at Westminster as a veiled suggestion that Mr Mitterrand was trying to use the ratification of the treaty as a diversion from France's stubborn refusal to make any further concessions to the US in the Uruguay Round of trade talks.

Mr Mitterrand last night simply repeated his frustration at the British intention to delay ratification at least until next May, until after the result of the second Danish referendum.

Speaking at a joint press conference with Mr Giuliano Amato, the Italian prime minister, the French president said: "Everyone should accept his responsibilities. We have all signed this treaty. It is now necessary to put it in place.

"One can well understand that the British government needs a bit of time to deal with its own problems, but one cannot hinder the process (of ratification) that is already under way."

Chancellor Helmut Kohl of Germany is also likely to spell out his concern at the consequences of Britain's delayed ratification timetable when he meets Mr Major today at Ditchley Park, near Oxford.

A key worry for the German leader is the threat of a delay in negotiations with new applicants for EC membership, strongly backed by both Britain and Germany, and hitherto scheduled to begin on January 1.

They include Austria, Finland and Sweden, who have already applied, and Norway and Switzerland, who are expected to do so.

Mr Kohl would like those talks to go ahead regardless of the delay in ratification, but other EC members seem likely to block them until ratification of Maastricht is completed.

However, Mr Kohl, anxious to preserve his good personal relations with Mr Major, is unlikely to attack him openly for his decision to postpone the Maastricht ratification process. Mr Kohl will also throw his weight behind any initiative Mr Major is ready to take to reach a settlement between the EC and the US in the Gatt talks.

One serious bone of contention between the UK and Germany – the future of the joint European Fighter Aircraft – will not be on the agenda of the talks.

Mr Volker Rühe, the German defence minister, who wants to scrap the project, says that any further negotiations must await a report by the joint defence chiefs of Britain, German, Italy and Spain, about their future air defence requirements.

Mr Major also had talks in London yesterday with Mr Ruud Lubbers, the Dutch prime minister, who made it clear that he, too, had strong reservations about the British government's policy on ratification.

The official British line was that Mr Lubbers had expressed "no complaints or recriminations against the British position."

But outside 10 Downing Street, Mr Lubbers told Dutch television that he did not understand what Britain was doing and that he was disappointed with its position on the Maastricht treaty.

Russian president Boris Yeltsin is greeted by Betty Boothroyd, speaker of Britain's House of Commons, before his speech to a joint session of the Houses of Parliament Page 16

Crédit Lyonnais to control BfG Bank

By William Dawkins in Paris

CREDIT LYONNAIS, the aggressive French state-owned bank, yesterday won agreement to take 50.1 per cent control of BfG Bank, Germany's sixth largest private sector commercial bank, for DM1.42bn ($890m).

This is the climax of a five-year campaign by Crédit Lyonnais to boost its presence in Germany, the biggest gap in its international branch network. BfG has 170 branches in western Germany compared with Crédit Lyonnais's 23, even fewer than it has in Belgium.

The French bank is to pump an initial DM740m of equity into the undercapitalised BfG, of which DM540m will be in cash and the rest in the form of shares in its German subsidiary, Crédit Lyonnais Deutschland.

This will give Crédit Lyonnais an initial 26 per cent stake. It will buy the 24.1 per cent balance needed to obtain a majority, in equal parts from BfG's existing owners, Aachener und Münchener Beteiligungs (AMB), the insurance group, and BGAG, the German trade union holding company.

Crédit Lyonnais, the latest in a long line of big French investors in Germany, hoped until last autumn to improve its access to the German market by striking a partnership with Commerzbank, Germany's third largest bank, but four years of talks finally broke down.

AGF, the French state-owned insurer, asked Crédit Lyonnais to consider buying BfG early this year to help the insurance group consummate a separate alliance with AMB.

The German insurer, looking for an exit from what had proved a costly diversification into banking with formerly loss-making BfG, subsequently agreed terms with AGF.

Yesterday's deal completes a rare example of two French state-owned groups helping each other in the German market.

BfG, which welcomed the deal, is in the throes of a restructuring programme. Its staff has been cut from 7,000 to 5,200.

Continued on Page 16

Major starts probe into trade with Iraq

By Ivo Dawnay in London

MR JOHN MAJOR acted yesterday to quell a mounting storm over defence trade with Iraq by ordering an independent judicial inquiry into allegations that UK ministers colluded to break government guidelines up to the invasion of Kuwait.

But the British prime minister's pledge of full co-operation with the inquiry failed to weaken the political storm created by the release of some 500 pages of secret Whitehall documents after the collapse on Monday of the trial of three directors of Matrix Churchill, a UK machine tool company, who had been accused of illegal sales to Iraq.

The documents appear to show that some officials and ministers endorsed a covert policy change approving arms sales to Iraq in contravention of a 1985 embargo on such sales just two weeks before Baghdad invaded Kuwait in August 1990.

In the House of Commons yesterday, Mr John Smith, leader of the opposition Labour party, asked Mr Major: "Do you recall assuring the House in January 1991 that 'for some considerable time we have not supplied arms to Iraq'? How do you reconcile that with the revelation in the government's documents produced at the Matrix Churchill trial that as late as July 27 1990 – only six days before the invasion of Kuwait – machine tools known to be intended to make fuses for missiles and artillery shells were supplied to Iraq?"

Mr Major replied: "As you know from 1985 until the Iraqi invasion of Kuwait, the government operated under guidelines first set out by the then foreign secretary, Lord Howe. Since the invasion we have operated and continue to operate the full embargo." MPs of all parties demonstrated their disquiet that four ministers had argued unsuccessfully to the judge presiding over the trial that the documents – viewed as crucial to their defence – be suppressed on grounds of national security.

Last night, Mr Robin Cook, Labour's trade spokesman, introduced a sharply critical motion, citing three occasions when Mr Major, his predecessor, Lady Thatcher, and, Mr John Redwood, then a trade minister, allegedly gave misleading answers about Matrix Churchill or breaches of the policy on sales of defence-related equipment.

Mr Paddy Ashdown, the Liberal Democrat leader, released a letter from Mr Major, dated December 6 1990, in which the prime minister said guidelines governing licensing were taken on a case-by-case basis. His letter read: "It was of course important to ensure that the guidelines were observed and to avoid prejudicing British industry and jobs by refusing licences where there was not reason to do so under the guidelines."

Argument is now expected to centre on to what extent the government was aware that machinery was being sent to Iraq would be used for military purposes.

Sir Nicholas Lyell, the UK attorney-general, said Lord Justice Scott, the judge appointed to head the inquiry, would have access to all departmental papers and the right to call ministers. He could hold proceedings in public if he chose. His report and evidence, where it did not breach national security, would be published.

Sir Nicholas said the Matrix Churchill case had been dropped when the Customs Commissioners concluded that evidence given by Mr Alan Clark, until April the defence procurement minister, under cross-examination last week was inconsistent with statements he had made in 1991 and in September this year.

Who knew what when, Page 7

Crucial meeting before invasion

By Philip Stephens in London

JUST THREE weeks before Saddam Hussein's invasion of Kuwait on August 2 1990 Mr Douglas Hurd, Britain's foreign secretary, called a meeting of senior ministers to consider the relaxation of restrictions on defence-related sales to Iraq.

The meeting was the culmination of more than two years of internal Whitehall battles over guidelines set out in 1985 by the then foreign secretary, Sir Geoffrey Howe, to prevent Britain from arming either side in the Iran-Iraq war.

Its conclusions – and the background papers prepared in advance – may prove to be one of the most fertile areas of investigation for the judicial inquiry set up yesterday by Lord Justice Scott. As a confidential Ministry of Defence background paper reveals, the issue of machine tool sales to Iraq was at the heart of the discussion.

The paper, dated July 17 1990, says UK ministers had, five days earlier, been issued with intelligence assessments of Iraq's "strategic weapons programme". Until then, senior ministers might have claimed they were unaware of many of the detailed decisions taken by officials and more junior ministers which had allowed sales of sophisticated arms manufacturing equipment to Iraq over the previous two years. But on July 19 1990, the government papers suggest, the issue was being discussed at the very top of the government.

Last night Downing Street said that Mr John Major, then chancellor of the exchequer, had not attended. But the papers make clear that a Treasury minister was represented to set out the financial implications of any change in the rules.

A cabinet office paper prepared for the meeting outlined a number of options. One favoured the status quo while another called for a formal relaxation of the rules. The third – strongly favoured by the Ministry of Defence – suggested outright abolition of the special restrictions on arms-related sales to both Iraq and Iran.

In battles before the meeting the Department of Trade and Industry had fought tenaciously and, usually successfully, for the the loosest possible interpretation of the rules so that it could authorise the sale of sophisticated machine tools to the Baghdad government.

By June 1990 Mr Nicholas Ridley, trade and industry secretary, decided to formalise the status quo. He wrote to Mrs Margaret Thatcher, then prime minister, to request the high-level review. Mr Hurd was chosen to chair it. The outcome is not documented.

CONTENTS

Commission president fears setback for EC if pact fails

Delors says treaty must be ratified

By Ronald van de Krol in The Hague

IT WOULD be a mistake to renegotiate the Maastricht treaty, even though the document had blemishes and would not win a "beauty contest", Mr Jacques Delors, the European Commission president, said yesterday.

"If it [Maastricht] were undermined, we would need two, three or four years to get a result that would probably have less dynamism and attraction," he said.

In a rousing speech to the first congress of a pan-European Socialist grouping, Mr Delors said that "declarations of interpretation" were possible on concepts such as European citizenship if this would help the process of ratifying the treaty in certain countries. "But if tomorrow we had to have an *à la carte* menu, then we would really have no Community at all," he said.

There was no need to feel despair at the state of the European Community, Mr Delors insisted, citing the achievements since 1985 in launching the Twelve on the road to a single market. The EC's history was dotted with periods of stagnation as well as periods of progress, and it had always been marked by tension between adherents of the federal and inter-governmental schools of thought. "The Maastricht treaty is a compromise between these two."

The EC, national governments and national parliaments had all been guilty of keeping the public in the dark about European developments, and more had to be done to make the EC's workings transparent. "It is necessary to have clear and more direct support from the people to make this next leap forward to European union," he said.

Mr Delors added that the EC had to be more than an "economic space" and needed to have its own political personality. Already, the EC was regarded as a major power by outsiders, he said, citing the Gatt trade negotiations.

The EC had also to be strengthened before it could be enlarged to embrace new members. "We need a solid house in order to bring in new guests, or new members," he said. "If the house is not solid, it will be blown away by enlargement."

EC struggles to keep Maastricht train on rails

The actions of Britain have pointed up an uncomfortable truth about the pact, writes Lionel Barber

CHANCELLOR Helmut Kohl will want some straight answers when he meets Mr John Major, UK prime minister, at Ditchley Park in Oxfordshire today. Mindful of the need to avoid reopening wounds in Anglo-German relations, Mr Kohl will seek to establish when exactly the British government intends to ratify the Maastricht treaty on European political and economic union.

So far, British pronouncements have been Delphic. Having promised to push the Maastricht bill through the House of Commons by the end of the year or early in January, Mr Major last week bowed to pressure from Tory Euro-sceptics and agreed to postpone ratification until after a second Danish referendum, probably next May.

President François Mitterrand's outburst on French television on Monday night against British shilly-shallying merely echoed what many senior officials in Brussels and other capitals are saying privately.

However irritated Mr Major will be at Mr Mitterrand's remarks, he will attach far higher priority to the views of Mr Kohl. For whatever the Chancellor's domestic difficulties, he is best placed to give a lead to the Community which recently has been lurching from crisis to crisis, in the view of a senior EC official.

By restoring a link between parliamentary approval of Maastricht to a resolution of Danish demands for exemptions from the treaty, Mr Major upset plenty of allies. These include officials in Bonn who are still feeling sore after the furore over whether the Bundesbank forced sterling out of the exchange rate mechanism.

Yet, in ordering a delay as the price of winning over Tory Euro-sceptics, Mr Major has highlighted a truth which many EC partners have been prone to forget: without a resolution of Danish demands for "legally binding" exemptions from Maastricht, there can be no second Danish referendum, and therefore no treaty (since it requires ratification by all 12 EC members to come into force).

The huffing and puffing which greeted Denmark's rejection of the treaty last June obscured this truth. Member states agreed first in Oslo and later in New York to early Maastricht ratification by all members, with the mutineers from Denmark coming on board last.

Without a Danish settlement there can be no treaty

The new British delay changes this logic. What ought to have been a balance of 11 states against one on Maastricht ratification has changed into a "race to be last". Hence, the new alliance of convenience between the UK and Denmark which emerged on Monday at the meeting of EC foreign ministers in Brussels.

The aim is two-fold: the avoidance of a messy divorce between the EC and the Danes, and the early settlement of the Danish question by the Edinburgh summit next month so as to proceed with other EC business, notably enlargement negotiations with Finland, Sweden and Austria.

Both British and Danish officials argue that the price of a Danish divorce would be the end of Maastricht – and a new treaty. Mr Major is likely to point out politely to Mr Kohl that such a new treaty may well fall short of the scope of Maastricht, particularly its provisions for political and monetary union. As one UK official mused this week: it is far from clear whether Mr Kohl could secure Bundestag approval for a treaty which provided for the irrevocable linking of exchange rates on the lines of Maastricht.

Similarly, Mr Major will seek to appeal to the chancellor's interest in enlarging the Community, to pull in richer members such as Austria which will help redress the EC's tilt to the south and push it more to the east. At the moment, enlargement negotiations are tied to a resolution of the Delors II budget package and ratification of Maastricht by all member states. But the delay in ratification has created uncertainty about the entire enlargement timetable – and the planned review of Maastricht in 1996.

Already Belgium, which inherits the rotating EC presidency in July 1993, has voiced complaints that there are two main priorities – enlargement talks and implementation of the provisions of Maastricht – which appear jeopardised by Denmark's and Britain's delays. "Enlargement is going to be the next big row," says one EC official.

Faced with the unpleasant fact of a dual Anglo-Danish problem, several EC leaders are tempted to throw up their hands. Already there is mischievous talk in Brussels about scrapping Maastricht and trying to negotiate a new deal among 10 states committed to some kind of European union. So far, it is low-level talk; the intention remains to try to settle the differences at Edinburgh on December 11-12.

But that summit agenda is already looking very crowded. In the next five weeks, the crucial bargains must be struck if the future of Maastricht is to be settled. The question for Mr Kohl is whether he chooses to take a confrontational line like Mr Mitterrand on Monday night, or whether he plumps, in the words of one UK official, for "intelligent flexibility". No one can yet be sure which way he will jump.

IG Metall clouds Bonn's hopes for solidarity pact

By Christopher Parkes in Frankfurt

THE leadership of IG Metall, Germany's most influential trade union, yesterday refused further discussion of engineering employers' proposals to renegotiate pay deals in the east or revise agreements on shorter working hours in the west.

The decision, taken at a board meeting, will cloud hopes for an historic "solidarity pact" between government, employers and unions aimed at helping economic recovery in the former East Germany.

Mr Franz Steinkühler, the engineering union president, said that if employers or government truly wanted to stop de-industrialisation in the east they should not argue with the union over pay restrictions.

"They must instead work with IG Metall to change economic and finance policy," he said. If employers wanted to renegotiate existing pay and hours deals they would have to approach regional union branches. But, he stressed, "IG Metall is not prepared to accept cuts in east German agreements."

Under existing deals, basic wages for mechanical and electrical engineers in the east are due to rise to match those in the west by April 1994. The working week in western Germany, now 37 hours, will be cut by an hour next year and fall to 35 hours in 1995.

Employers in most industries, backed by the government, argue that a fundamental change of direction in pay and conditions agreements is essential if the east is to build firm economic foundations and if western industry is to remain competitive. Mr Steinkühler recently raised expectations for Chancellor Helmut Kohl's proposed solidarity pact with a conditional offer to accept pay settlements for the next five years which covered only increases in inflation.

However, the outright rejection of the employers' proposals on eastern pay and western hours demonstrates that union resistance to the establishment concept of "solidarity" remains unaltered.

● West German inflation in October was revised down to 3.7 per cent from a provisional 3.8 per cent, according to the Federal Statistics Office.

Finland to forge firmer EC ties

By David Marsh European Editor

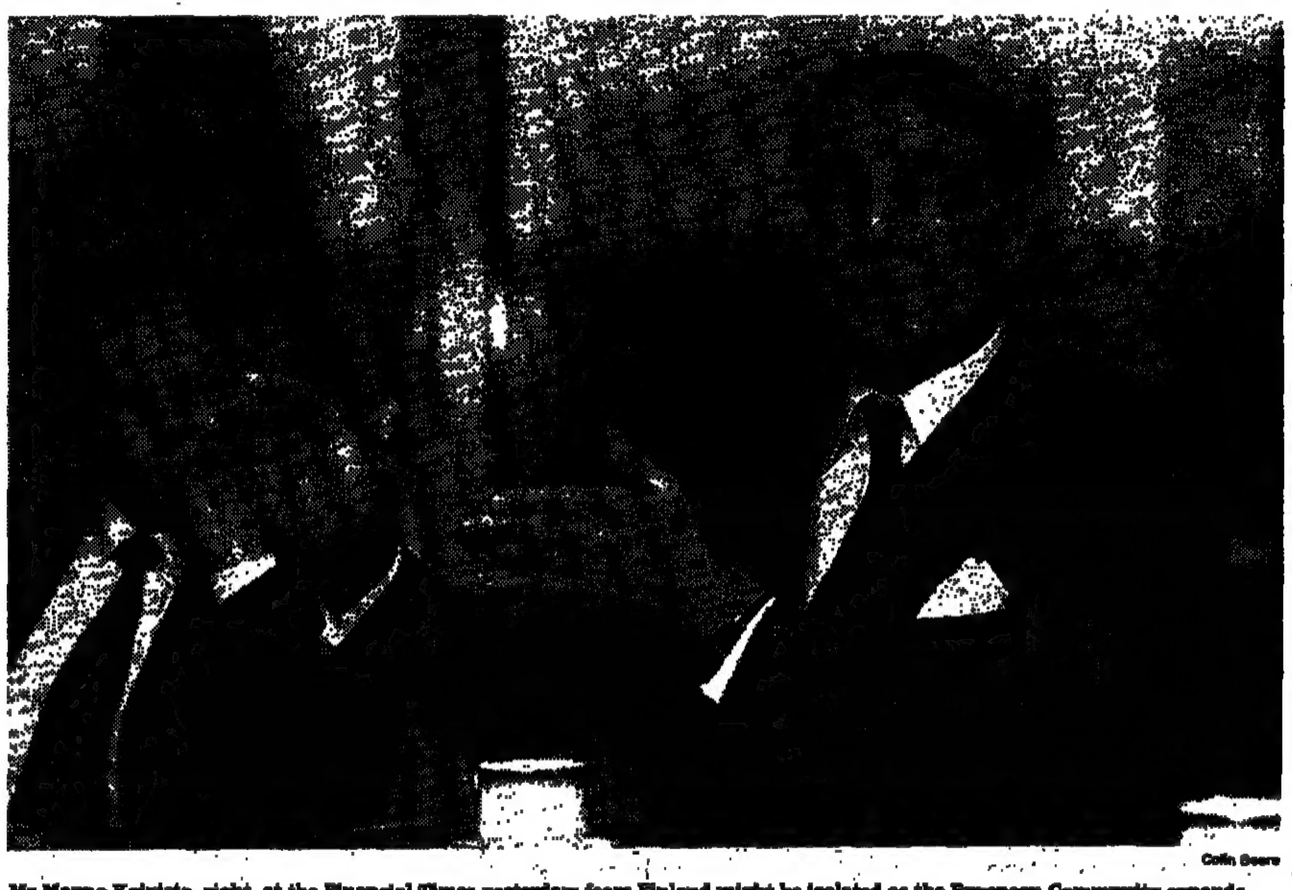
FINLAND wants to establish EC links involving "economic, social and security co-operation" as part of its effort to join the Community by the mid-1990s, Mr Mauno Koivisto, the country's president, said yesterday.

He told the Financial Times during a visit to London that EC membership was a natural consequence of Finland's long-term policy of pursuing western integration.

Finland is applying for EC membership along with most of the other members of the European Free Trade Association (Efta).

The president admitted that one important factor behind his country's desire to join was Finland's fear of isolation as the EC expanded: "In people's minds, they see the danger that other Efta countries would have a greater role in European integration."

Mr Koivisto later told a lunch at the Finnish-British Trade Guild that his country wanted to advance beyond membership of the European Economic Area (EEA), the free-trade area between the EC and Efta due to come into effect at the beginning of 1993.



Colin Beere

Mr Mauno Koivisto, right, at the Financial Times yesterday: fears Finland might be isolated as the European Community expands

In terms of the opening of Finland to outside competition, Mr Koivisto said that the economic implications of EEA membership were more important than those of joining the Community.

The main difference was in the political sphere. "The EEA agreement does not give us full rights to sit at the table at which decisions intimately affecting us are made. Membership would return to us a lot of the sovereignty that we shall lose as a result of the EEA agreement."

Mr Koivisto said he supported the floating of the Finnish markka in September, which led to a large effective devaluation after heavy selling pressure.

Although the markka had not been overvalued, the strength of "market forces", coupled with Finland's lack of substantial foreign exchange reserves, were the main reasons behind the decision, he said.

Finland decided not to activate foreign central bank credit lines to support the markka because the fight on the currency market had already been lost, Mr Koivisto said.

Finnish exporters had subsequently gained in competitiveness, and were using the devaluation as an opportunity to expand the range of goods sold abroad.

Some sectors of Finnish industry were suffering from "overheating", in spite of the general effects of recession on the economy, as a devaluation of about 20 per cent now coincided with an inflation rate of only 3 per cent, the president said.

UK takes minimalist approach on treaty

By Sheila Jones

THE UK government is spending about 0.5p per head of the electorate in its campaign to persuade the British people that Maastricht is good for them.

It has spent £125,000 ($193,000) publishing a quarter of a million copies of a pamphlet called Britain in Europe. The publication is designed to dispel the "Euromyths and Euromonsters", Mr Douglas Hurd, foreign secretary, said yesterday.

A further 250,000 copies of the booklet will be printed if demand is enough, taking the total cost to £163,000.

The 24-page pamphlet is being distributed to MPs, MEPs, libraries, universities and agencies such as the Citizens Advice Bureau. It explains, in very broad terms, how the European Community works, what the single market is and what changes the Maastricht treaty will bring.

The cost of the pamphlet's launch compares with the £3m cost of the government's campaign in September to explain its new council tax. Then, a leaflet was delivered to 20m households.

Mr Hurd said yesterday the government had considered distributing the new pamphlet to all households but this had been ruled out. A Foreign Office official said cabinet convention meant the government could not be seen to be advertising what was not yet official policy: the Maastricht treaty was so far only a bill.

The Danish government, in the run-up to its referendum on Maastricht, sent pamphlets to all 2.33m Danish households. It also distributed free 500,000 copies of the Maastricht treaty. Britain's HMSO has so far sold nearly 5,000 copies of the treaty at £13.30 each and a further 5,000 of the EC's publication of the treaty, which costs £6.50. Several private companies have also published their own copies of the treaty.

In the pamphlet launched yesterday, Mr John Major, the prime minister, features on the first page with a colour photograph, and a message that EC membership "is about peace, stability, jobs and prosperity".

Copies can be obtained by writing to Freepost, PO Box 1992, Burgess Hill, West Sussex, RH15 8QY, or by ringing 0800 778866

Waigel warns of DM10bn fall in total tax revenues

By Quentin Peel in Bonn

OVERALL tax revenues in Germany next year will be DM10bn ($6.5bn) less than forecast, because of the downturn in the economy, Mr Theo Waigel, the finance minister, reported yesterday.

The fall in income for the central government budget amounts to DM6.7bn, according to the figures published by the finance ministry. The sum will now have to be added to the net borrowing requirement. Instead of a budget deficit of DM38bn, it is now forecast at DM44bn, with the DM700m gap to be met by increased income from other sources, including privatisation.

The government seeks savings in next year's budget. The ruling coalition parties yesterday proposed a one per cent cut in all public service personnel, as part of the "solidarity pact" between central government, the 16 federal states, local government, trade unions and industry.

OECD presses Germany to ease rates of interest

By William Dawkins in Paris

GERMANY came under renewed pressure to ease interest rates yesterday from its European partners in the Organisation of Economic Co-operation and Development.

A meeting of senior finance officials, called to debate why the long awaited economic recovery has not arrived, agreed that long-term rates in Europe may continue to come down on the likelihood of lower inflation. They also recommended that OECD members should ease fiscal policy to stimulate growth.

Governments should at the same time give firm promises to toughen fiscal policy again when growth takes off, said Mr Bernard Molitor, the German Economics Ministry director, who chaired the meeting. He stressed the OECD still stuck to its strategy of price stability and reducing budget deficits.

The scope for German interest rate cuts was the subject of "much debate", said Mr Molitor, with several governments emphasising the promotion of European business confidence that a reduction in borrowing costs could bring.

The meeting confirmed the downgrading of OECD growth forecasts, but predicted that inflation would continue to fall. Unemployment would start to ease in 1994 after stabilising at an average of slightly more than 8 per cent next year.

Accordingly, the OECD expects average growth in gross domestic product to reach about 1.5 per cent this year, down from earlier forecasts of 1.8 per cent. There should be a continued small recovery, about 2 per cent in 1993, rising to 3 per cent in 1994, said Mr Molitor.

Earlier forecasts had underestimated the deflationary drag caused by the ending of the market booms in the late 1980s and subsequent cautious lending by banks. Even the latest lower forecasts had a big margin of error due to blows to economic confidence inflicted by the currency market turmoil, growth in government budget deficits and deadlocked negotiations on world trade rules, he warned.

Mr Kumi Shigehara, head of the OECD's economic department, predicted that average inflation would fall to 2.5 per cent by the end of 1994, the lowest level since the 1960s, which compares with 3.2 per cent in the 12 months to September.

EC nears accord on new medicines

By Andrew Hill in Brussels

THE European Community yesterday came a step closer to establishing a central agency which would authorise new biotechnology and high technology medicines.

Internal market ministers reached broad agreement on a system for authorising new pharmaceutical products in the EC.

However, final agreement on a pan-European system – aimed at reducing delays and confusion caused by multiple authorisation – will have to wait, because Denmark is concerned that EC proposals may conflict with its own strict laws on drugs derived from biotechnology.

The highly political question of where to site a European medicines agency has also been deferred. It will be added to a list of unresolved problems about the location of newly created EC agencies to be decided at December's Edinburgh summit.

The bulk of new pharmaceuticals will still be approved at national level, but it should be possible to market a product approved in one EC country elsewhere without having to repeat the authorisation procedure.

● Reuter adds: Ministers broke a deadlock yesterday by agreeing how to protect cultural treasures once its border controls disappear. EC officials and diplomats said internal market ministers agreed in principle on a two-pronged strategy – export certificates for treasures leaving the EC and procedures for returning treasures that have been taken illegally from one EC country to another.

Support for impeachment in French blood scandal

By David Buchan in Paris

FRANCE'S MAIN opposition parties yesterday supported President François Mitterrand's suggestion that parliament should open an impeachment procedure to clear up the question of ministerial responsibility in what one newspaper has dubbed the "Bloodgate" scandal.

Mr Mitterrand announced on Monday night that he would shortly propose a constitutional reform package, partly because the existing parliamentary impeachment procedure was an inappropriate way of dealing with the allegations that Mr Laurent Fabius, the Socialist party leader and former prime minister, and two other former ministers were culpable in the transmitting of HIV-infected blood to more than 1,000 haemophiliacs in the mid-1980s.

But for the time being, impeachment involving the possible trial of the former ministers before a "high court of justice" composed of 24 senators and deputies, was the only way of settling the affair, the president said.

Mr Charles Millon, leader of the centre-right UDF party, proposed that the national assembly should elect its representatives on the high court next week.

Last month the national assembly's steering committee rejected impeachment demands from the opposition. But the president's intervention has changed sentiment within the governing Socialist party. This is now anxious to clear its name and that of Mr Fabius.

By contrast, opposition leaders were generally suspicious of Mr Mitterrand's announcement that, before the end of this month, he would also propose changes to limit the term in office of future presidents, to strengthen the judiciary's independence, and to alter the balance between the executive and legislature.

Some suggested that, in coming with up such reforms after 11 years in office, Mr Mitterrand was only trying to distract attention from the blood contamination affair.

President François Mitterrand: his intervention has changed minds of the Socialists on the issue

Paris, Rome in new chip venture funding

By David Buchan in Paris and Robert Graham in Rome

The French and Italian governments agreed yesterday to pour FFr5.4bn (£640m) into SGS-Thomson, their jointly controlled semiconductor manufacturer, over the next five years.

The "recapitalisation" and provision of additional R&D funding of Europe's only remaining independent chipmaker was agreed at the Franco-Italian government summit yesterday.

The additional French funds for SGS-Thomson will be channelled through the three state shareholders – Thomson CSF, CEA-Industrie and France Telecom. IRI, the Italian state holding company, holds a 45 per cent share in the company, with the remaining 5 per cent held by the latter's high technology subsidiary, Finmeccanica. However, it is more likely that the bulk of the Italian funds will be funneled through ENEA, the state nuclear and alternative energy research institute.

This would make ENEA a shareholder in the venture and mean that Italy is emulating an ownership similar to that of France.

France has been pressing Italy, which is trying to restrain its ballooning public deficit, to find more money for SGS-Thomson since September when the French government brought in CEA-Industrie, the industrial arm of its Commissariat à l'Energie Atomique, and France Telecom to help Thomson-CSF out.

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Reformers in Russia stand firm

By John Lloyd in Moscow

THE Russian government is determined to fight to revive its programme of radical economic reform – and believes it has the full support of President Boris Yeltsin.

This would mean a showdown between Mr Yeltsin and the increasingly powerful anti-government forces before the Congress of People's Deputies opens on December 1.

Mr Yegor Gaidar, the acting prime minister, is working on a short-term crisis programme for the economy, designed to safeguard the faltering reform programme. It is intended to fulfil his promise made last month to tighten monetary policy – in opposition to the interventionist programme being urged on Mr Yeltsin by Civic Union, the powerful centrist bloc.

Civic Union's programme, presented to Mr Yeltsin last week together with demands for substantial cabinet changes, calls for price controls – including a freeze on the prices of energy and some basic consumer goods as well as many raw materials – and control of wages and pensions.

Mr Yeltsin was said yesterday by cabinet insiders to have rejected making substantial concessions to Civic Union, and had decided instead to support the government's efforts to get the failing economic programme back on track.

Any deals with the International Monetary Fund on a standby agreement or with the Paris Club of western banks on a rescheduling of Russia's \$70bn-\$80bn debt are likely to fall victim to the power struggle. Substantive discussions with the IMF on a standby agreement are not expected to start until next year – though ministers hope to have a standby agreement by April 1993.

The government and its policies remain vulnerable, especially to hyperinflation. Internal figures show inflation running at 25 per cent a month and rising. Production continues to fall, and there is as yet no effective control of the extension of credits from the Central Bank.

However, pressure from Civic Union and the extreme left and right organised in the National Salvation Front has united cabinet ministers and presidential advisers into an increasingly determined group.

Orchestrating governments: the Christian Democrat's new party secretary, Mino Martinazzoli, pictured during a visit to London.

Party chief faces tough task

The new boss of Italy's Christian Democrats must try to reconcile old guard and reformers, writes Robert Graham

REMOVERS have been busy hauling away files from the Christian Democrat's headquarters in an imposing 16th century palace in the centre of Rome. The old guard has been emptying offices, making way for Mr Mino Martinazzoli, the new party secretary.

In less than a month this 61-year-old lawyer, former justice minister and amateur poet, has imposed a more sober style. Fewer courtiers are to be found murmuring into cellular telephones, fewer chauffeur-driven cars are permanently parked outside. His team is smaller, pays less heed to the various party factions and is more eclectic. It includes a one-time conscientious objector and the party's first woman president, Rosa Russo Jervolino, the minister of education.

Throughout Italy's post-war political history, the secretaries of the ruling parties have consistently orchestrated the making and breaking of governments. The Christian Democrat secretary, as leader of the party winning the most votes, has also been the apex of the system of *"soto-governo"*. This has meant control of the nominations and decisions in the civil service, regional/local government, the boards of state companies and banks and management of the main state television channel. Such control, where favours were exchanged and votes gathered, interlocked the interests of party and state (the former always taking precedence).

The circumstances confronting Mr Martinazzoli are wholly different. New political alliances are in the air; a financial crisis is forcing the parties to slim down their organisations; electoral reform is on the way and the incestuous relationship between the parties and the state apparatus is being forcibly untangled by a wave of corruption investigations.

As a party, the Christian Democrats urgently need renovation like the Socialists, their long-standing partners in government. Indeed their problems only differ in degree and timing: the Socialists have yet to change the discredited leadership of Mr Bettino Craxi and are even more besmirched by the odour of corruption.

Founded in 1942, the party owed its strength to the backing of the Vatican (and the US) during the Cold War as an inter-class anti-communist front and the charismatic early leadership of Mr Alcide De Gasperi. Gradually its rationale became reduced to the exercise of power through men like Mr Giulio Andreotti, who was prime minister seven times, and the intricate balancing of power factions headed by the various "barons" and their acolytes.

The party failed to adjust to the end of the Cold War, miscalculated discontent over corruption and failed to see the challenge in the north from the populist Lombard League.

The party's share of the vote fell to 29 per cent in April. Though still easily the largest single party with 206 of the 630 seats in the chamber of deputies, it has lost much of its legitimacy as the natural party of power. Moreover, a gap of as much as 15 percentage points has opened up between party support in the north and the south, where the vote has held through traditional patronage and mafia links. The latest polls suggest the party would get only 20 per cent in the north, half that of the League.

Mr Martinazzoli, who had been anticipating retirement, is one of the few senior Christian Democrats with a clean reputation. He also comes from the northern city of Brescia and the recovery of the north with a clean up of the party's structure there is a priority. This entails changing both the way the party is funded (ending kick-backs on public contracts) its behaviour and policies.

The most coherent platform is propounded by Mr Mario Segni, leader of the referendum movement. He combines the best of the party's Catholic ethical tradition with a strong reformist bent and is by far the Christian Democrat's most attractive asset. The old guard refused to accept him as the new leader, and Mr Segni was wary about pushing himself forward, aware his political career could be undermined by taking on a party he could not reform properly.

This leaves the uncharismatic Mr Martinazzoli with an old guard sniping from the sidelines terrified of losing their privileges, and the reformists under Mr Segni continually threatening to leave. Mr Martinazzoli can probably rely on the old guard being further discredited by the countrywide investigations of magistrates into political corruption. But the party is too conditioned by over four decades of *soto-governo* to change overnight, and Mr Martinazzoli may not have the ability to retain the loyalty and contain the ambitions of the likes of Mr Segni.

Greece to speed up asset sales

By Kerin Hope in Athens

GREECE plans to sell majority holdings in two state-owned oil refineries in the next few months as the government tries to speed up its much-delayed privatisation programme.

The two refineries, which account for 40 per cent of Greece's refining capacity, will be offered separately to international bidders. Goldman Sachs, the US investment bank, is acting as financial adviser.

More than two years have passed since parliament approved the privatisation of state utilities and transport companies. But disposals have been delayed, for political and practical reasons.

It was only recently that Mr Stefanos Manos, the economy minister, managed to overcome opposition to privatisation from one faction of the governing New Democracy party.

Meanwhile, international accountants were called in to audit large state enterprises which had produced incomplete balance sheets in recent years. This proved more time-consuming than expected, reportedly because of the old-fashioned book-keeping methods in Greek public administration.

With mounting interest payments due on the public debt in 1993-94, the government is anxious to secure as much extra revenue as possible. It hopes to raise more than Dr200bn (£633m) from the sale of a 35 per cent stake in OTE, the state telecoms monopoly, early next year.

The main state investment bank, ETVA, is under pressure to find buyers quickly for the Neorion and Scaramanga shipyards. Fresh bids are being sought after negotiations with two Greek shipowning groups collapsed last month.

Madrid in retreat on strike rules

By Peter Bruce in Madrid

MADRID has backed away from plans to impose stiff strike rules on Spain's trade unions, allowing the Socialist government of Prime Minister Felipe Gonzalez to reach its first agreement with union leaders since a crippling one-day general strike in December 1988.

The Spanish parliament yesterday began a rubber-stamp debate on a controversial strike law after the government and unions agreed on Monday to a law which will define 17 sectors in which minimum services have to be maintained during a strike.

To get the agreement signed, the government was forced to drop clauses which would automatically have led to the dismissal of strikers who did not provide the minimum services.

The government feared further alienating the unions in the run-up to a general election which must be held by next October. With many unpopular measures already imposed this year – including cuts in unemployment benefit and direct and indirect tax increases – the government's own polls show the Socialist party would lose up to 20 of its 175 seats in parliament if an election were held now.

That would rob it of the bare majority it has in parliament and the prospect is already testing party unity. Liberal ministers including Mr Carlos Solchaga, the finance minister, argue that it would be preferable to govern in coalition rather than relax a tough economic convergence programme announced in April. But Mr Gonzalez faces strong pressure from Socialist party administrators to do everything possible to keep his majority intact.

Shares of Italian state holdings soar

By Robert Graham in Rome

THE PROSPECT of the Italian government unveiling privatisation plans within the next two weeks is encouraging heavy speculation in the shares of those state-controlled companies already quoted on the bourse.

Yesterday the Milan stock exchange authorities had to suspend dealings temporarily in no fewer than nine quoted stocks controlled by the state because their price had risen above the 10 per cent ceiling permitted in a session.

Speculative interest has heightened following the leak last Friday of a highly sensitive document outlining the government's plans and naming companies and financial institutions in line for privatisation. The leak forced the government to deny plans were so far advanced. However, the stock market seems unconvinced especially as the government is to reveal its plans by November 19.

Particular attention yesterday focused on the state-held banks and financial institutions, considered the easiest to sell off.

Credito Italiano, the sixth largest commercial bank, was the first to have its shares temporarily suspended after quotations had risen nearly 20 per cent. On Monday, the state holding company IRI approved the sale of its entire 67 per cent stake in Credito. Other shares suspended included Banca di Roma and Banca Fideuram, and the Assitalia insurance group.

The Party of the Democratic Left (former communists) yesterday called for a parliamentary debate on privatisation. "We are not against privatisation but we are concerned by the [government's] confused and disorganised approach which also fails to address the whole question of industrial policy," a spokesman said. A similar statement came from the CGIL, largest of the three main union confederations.

MacSharry back as EC ends squabble

By Frances Williams in Geneva, David Gardner in Brussels and David Buchan in Paris

THE EUROPEAN Commission last night buried its differences over the handling of trade talks, after negotiators from over 50 countries appealed to the EC and the US to settle their farm trade dispute.

Mr Ray MacSharry, the EC agriculture commissioner, is withdrawing his resignation as the Community's negotiator in the farm wrangles that are blocking an accord on world trade liberalisation.

His move not only ends a rift with Mr Jacques Delors, the European commission president, but also reflects growing pressure to avert a looming transatlantic trade war and to secure a world trade pact.

World-wide concern was evident in the decision by trade negotiators in Geneva yesterday to mandate Mr Arthur Dunkel, director-general of the General Agreement on Tariffs and Trade (Gatt), to intervene in the trade conflict with urgent trips to Washington and Brussels.

Mr MacSharry quit his EC negotiating role last week, claiming Mr Delors had undermined his position at a critical meeting with the US in Chicago. But the squabble was resolved at a secret meeting in Brussels between Mr Delors and key commissioners, aimed at heading off open confrontation at a meeting of the full commission today.

Emerging from the discussion, Mr MacSharry said: "I'll be taking part in the negotiations and contributing to the debate tomorrow." The Irish commissioner confirmed he would be resuming talks with the US.

Mr Frans Andriessen, the external affairs commissioner, who also attended last night's meeting, said: "I think the Commission will be united."

Today's meeting had seemed likely to be acrimonious, with the possibility that Mr Delors might even resign. Mr MacSharry had prepared a detailed rebuttal of Mr Delors' charges that he had exceeded his mandate in negotiations with the US to settle a long-running dispute over European subsidies to oilseed farmers and to get a deal in the Uruguay Round of world trade talks.

A majority of the 16-member Commission is in favour of an urgent resumption of negotiations and Mr Delors risked isolation, similar to France's minority position among member states on Gatt. Brussels had been instructed to resolve its differences by EC foreign ministers meeting in Brussels on Monday.

The US-EC row over oilseeds subsidies is a main stumbling block to the Uruguay Round of trade liberalisation talks. The six-year-old negotiations – which cover everything from farm goods and textiles to patent protection and financial services – have not advanced since the end of last year.

World leaders plead for end to US-EC trade dispute

Mr Dunkel's "rescue" mission was agreed at a meeting of the top-level Trade Negotiations Committee of the 108-nation Uruguay round. Mr Dunkel said his mission was prompted by the "deep sense of crisis" and the "concern and helplessness" felt by many countries faced with the failure of the US and the EC to settle their dispute.

Mr Dunkel said he would be going not as a mediator but rather as an "intermediary" between the two economic superpowers and other Uruguay Round participants. Mr Dunkel will also be trying to judge whether the US and EC are politically capable of successfully concluding the Uruguay Round in the next few months. He said he would "learn who is in charge" in Brussels.

Mr Dunkel, faces an awesome responsibility in discharging the mandate he has been given by the world trading community to pre-empt a global trade war.

Mr Dunkel will have two separate but linked objectives in view. First, he will be urging the two sides at all costs to settle the oilseeds row before December 5 when the US has threatened to impose retaliatory tariffs.

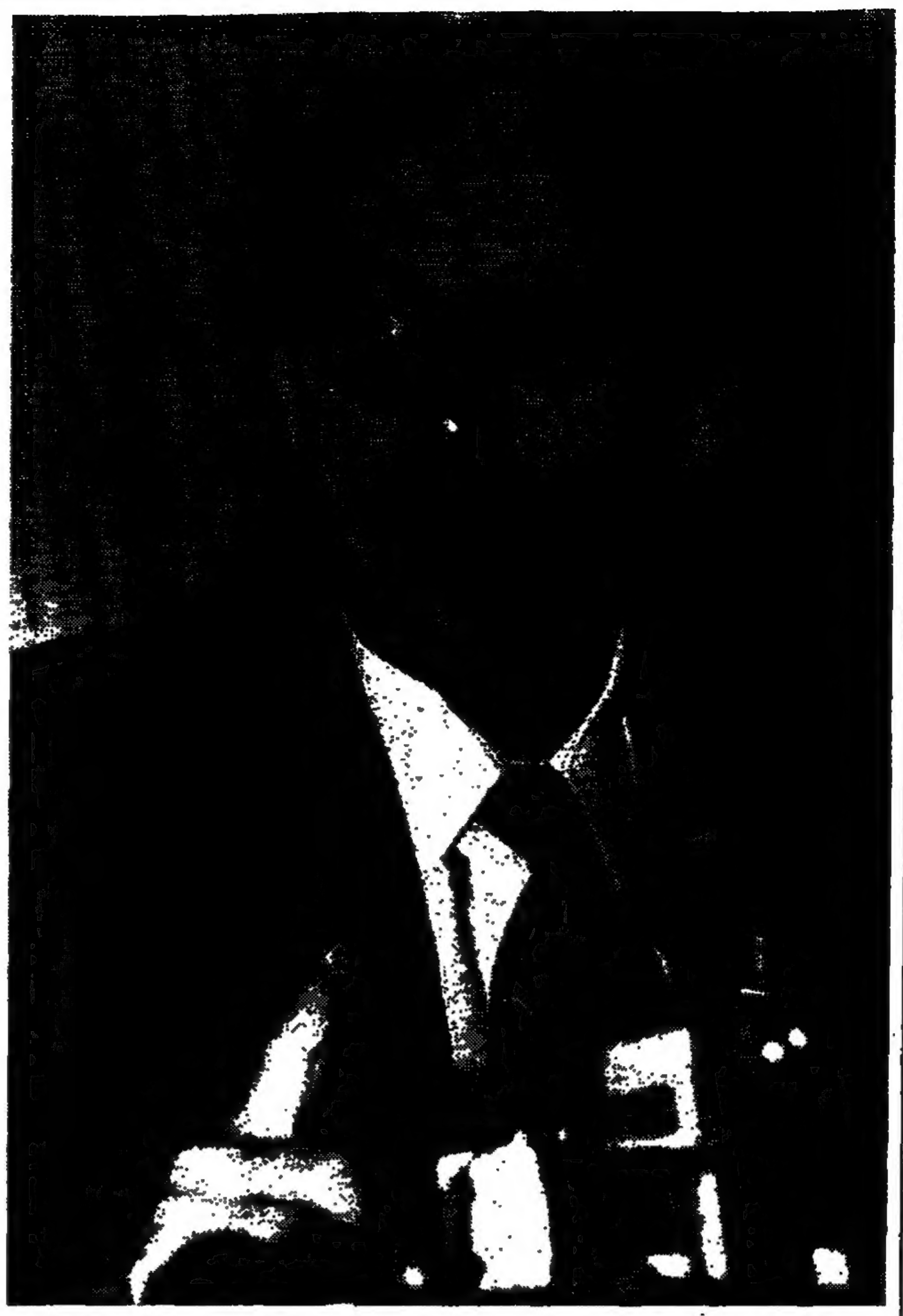
Trade diplomats in Geneva see this dispute as pivotal. The refusal of the European Community to comply with two Gatt panel judgments condemning its oilseeds subsidies as illegal represents a fundamental challenge to the authority of international trade rules.

But the US threat to go outside Gatt rules by imposing retaliatory tariffs unilaterally would not only spark a ruinous trade war but damage, perhaps fatally, the credibility of Gatt and its multilateral dispute settlement mechanisms.

The five-year-old oilseeds dispute is technically separate from the Uruguay Round of world trade talks, since it relates to existing rather than future Gatt rules. However, the EC has chosen to link an oilseeds deal with broader negotiations on farm trade reform in the round, effectively holding the multilateral negotiations hostage to a bilateral argument.

Washington and Brussels last month came very close to agreement on these broader farm subsidy questions. Mr Dunkel's second and even more delicate task is to see whether the US and EC are in a position to decouple oilseeds and return urgently to Geneva to restart the Uruguay Round talks. These have been stalled since last December because of the failure of the two big traders to settle their differences on farm trade.

Trade negotiators stress that the Uruguay Round, already two years behind schedule, must resume now if the 108 countries involved are to complete the wide-ranging negotiations, including country-by-country deals on market access for goods and services, by March 1 1993. This is the final deadline for the "fast-track" voting procedure in the US congress which requires legislators to approve or reject the Uruguay trade round package without amendment.



Mandated to seek swift resolution of transatlantic row: Arthur Dunkel, director-general of the Gatt

Chrysler to go to law against EC

US car-maker angry at duty on Austrian vehicles

By Kevin Done, Motor Industry Correspondent

MR Robert Eaton, chairman-elect of Chrysler, warned yesterday that the US vehicle-maker planned to take legal action against the European Commission in response to the Community's decision to impose a 10 per cent duty on imports of diesel-engined Chrysler Voyager vehicles from Austria.

Mr Eaton, Chrysler vice-chairman who takes over as chairman from Mr Lee Iacocca in January, said that Chrysler would also campaign in the US for duties on European car imports to be increased to 10 per cent from the present level of 2.5 per cent.

The US vehicle-maker has been angered by the EC decision to impose a 10 per cent duty on Chrysler's Austrian-produced vehicles. The EC claims that the Chrysler plant in Graz has breached its rules on state subsidies to the automotive industry.

The plant called Eurostar, a 50/50 joint venture between Chrysler and Steyr-Daimler-Puch, the Austrian engineering group, began production earlier this year.

It is producing vehicles at the rate of around 26,000 a year (105 a day), which will be increased to 40,000 a year (165 a day) from February, when a second shift is introduced.

The EC decided last week to impose the 10 per cent duty on the Chryslers but delayed implementation for two weeks until November 17 to allow the Austrian government more time to claw back Ecu100m (£80m) in state aid to the plant.

Mr Eaton said that under the terms of the original deal Austrian subsidies were to amount to 33.3 per cent of the Sch5.6bn (£330m) investment in the Eurostar plant.

Chrysler had agreed to allow this to be reduced to 22 per cent, but this had still not satisfied the Commission.

"I am enraged about the treatment we are getting," said Mr Eaton in an interview in London. "Ideally we would like the investment refunded and we will close the plant down and pull out of manufacturing in Europe."

"I will work hard to get the same treatment for European vehicles in the US as we are getting in Europe. Raising the import duty in the US from 2.5 to 10 per cent would give us a level playing field."

Mr Eaton said that it was much more expensive to build the Chrysler vehicles in Europe than in the US. The imposition of the 10 per cent duty meant that the project "no longer made financial sense".

Mr Gerhard Waas, an official in the Austrian Economics Ministry responsible for multilateral economic ties, said last week that the ministry believed that "the legal grounds for a punitive tariff are insufficient – and EC competition rules are not valid here, because we are not a Community member."

Mr Waas said the EC and Austria were only a few percentage points apart on the level of allowable state subsidies. He said he believed it was still possible to reach a compromise.

EC stirs export credit hornets' nest

Plans to end government monopolies will run into flak, says **David Dodwell**

THE EUROPEAN Commission is poised to stir a hornets' nest across Europe's insurance industry with plans to transfer short-term export credit activities from government agencies into private hands.

For exporters, the reforms are likely to mean higher insurance premiums. For insurers, the critical worry will be getting reinsurance. The Commission has become entangled in disputes about where responsibility for reform should lie and how to proceed.

Plans to put short-term export credit insurance for marketable risk into the hands of private insurers have been in preparation by the Commission's external affairs directorate (DG1) for almost a year.

In recent months, the competition secretariat (DG4) has taken up the running, causing confusion about who is responsible for reform and delaying implementation. DG4 argues that, as long as government agencies provide commercial credit risk insurance, private sector competitors will remain unfairly disadvantaged.

In a draft communication circulated inside DG4 officials complain that Ecu3.24bn (£2.59bn) are spent each year by EC member states to support their exporters, accounting for about 10 per cent of total state aid to industry. All export aid, they argue, "is contrary to the spirit of the single market, where exporters and export credit insurers are in competition with one another on an equal basis."

They pinpoint six chief factors which distort competition between private and public export credit insurers and hinder the growth of private sector insurers:

- State guarantees: these allow state insurers to borrow on the capital markets more cheaply than private competitors and relieve insurers of pressure to reinsure their exposure.
- No obligation to hold proper reserves: this imposes additional financial costs on private insurers.
- Tax exemptions: these help both state insurers and those operating with state support.
- Subsidies and capital funding: these can include compensation for operating losses, loans on favourable terms, no charges for use of public assets, or failure to recover claims.
- Regulation: public sector export credit insurers are often exempt from regulatory rules applying to private insurers.
- Free use of infrastructure: the draft communication singles out free access to privileged information.

Officials, saying these distortions are incompatible with obligations under the Treaty of Rome, are preparing a "communication" that outlaws them wherever an insurance risk is "marketable."

Export insurers across Europe have differing opinions on what risks are marketable and what are not.

In Germany, Hermes, the government-backed export credit agency, insists there should be "a rather limited scope for marketable risk," excluding political risk and for a maximum credit term of 12 months. The argument has particular force: Hermes claims that German reinsurers such as Allianz and Munich Reinsurance are not ready to cover risk outside this scope. It says that insurers like NCM, the Dutch private sector credit insurer, active in the UK as well as Holland, and Coface in France have already absorbed a great deal of Europe's private reinsurance capacity. Small insurers such as Portugal or Greece would find themselves with very limited access to reinsurance facilities. "It's a matter of reinsurance capacity," Hermes says.

These claims are serious as Allianz and Munich Re are important reinsurers not only in Germany but throughout Europe. However, there may be an element of bluff from pole position in something of a seller's market, they may simply be signalling that reinsurance premiums are likely to go up.

Hermes would anyway face a painful transition, as would state-controlled insurers in Belgium and Denmark, and smaller insurers in southern European countries such as Greece and Portugal. Germany's private insurers, such as Guerling and Algemeine Kreditversicherung, are tiny.

The 40-year legacy of offering a single export credit premium rate for all countries means insurers have no experience of country risk assessment. That single-rate system is to be replaced in 1993 with five risk categories; a decision that will provide better risk guidelines to insurers and promote the emergence of private sector insurance.

German industry, already nervous about the implications of abandoning a fixed-rate premium system that guaranteed cheap cover in risky but important markets in eastern and central Europe, has echoed German insurers' concerns. Mr Harald Müller at the BDI, the country's leading industry organisation, warns that rapid changes "would harm not only German companies, but other European companies too, especially when competing against Japanese and US companies."

He says that the worst affected would be Germany's small companies, which find it easier to go to a single state-owned insurer for all of their export credit needs.

The easiest transition is likely to be in the UK, where NCM last year acquired from Britain's Export Credits Guarantee Department control of the country's short-term export insurance business.

In many ways, Commission reformers are watching the experience of NCM, in providing commercial and political risk cover and in obtaining private sector reinsurance, as a possible model for reform across the EC.

The Commission is expected to decide within the coming weeks how best to proceed with privatisation. It is still unclear whether the speedier DG4 route, which will give member states six months to comply with a communication which could be issued in a matter of weeks, will be preferred over DG1's proposal for a directive. The latter is the lengthier route, since the directive would need to be ratified by the EC council of ministers.

Groups may share HK container terminal work

By Simon Holberton in Hong Kong

THE Hong Kong government yesterday said it would award the work to build the colony's four-berth ninth container terminal (CT9) to three of the four consortia who bid for it.

Officials said the decision to approach three groups to build CT9 – which is estimated to cost around HK$10bn (£843m) – reflected the need to have the terminal operational by mid-1995.

Yesterday's announcement took many of the bidders unawares. However, one of the successful applicants was critical of the government's inability to chose a clear winner.

The government wants all three consortia to share the cost of building CT9 but, on completion, for Hongkong International Terminals (HIT) and Modern Terminals Limited (MTL) to share two berths and for the Jardine Matheson-led Tsing Yi consortium to operate the other two berths.

The Tsing Yi consortium, which includes Sea-Land as operator, said the government's offer was different from the one it has expressed interest in. It said it was now considering the implications of the offer. MTL was also considering the government's offer.

The bidding for CT9 has occasioned one of the most acrimonious fights for preferment that Hong Kong has witnessed for many years. Jardine was pitted against Hutchison Whampoa, which controls HIT, and MTL, owned by mainland Chinese interests and Peninsular and Orient Steam Navigation.

At stake was the right to own a slice of infrastructure through which much of China's trade with the rest of the world passes. By 1995 the port is expected to handle 8m TEUs (20-foot equivalent units), up from 6m in 1991.

Target is surplus of 1.7% of GDP

Mexican budget set to cut inflation

By Damian Fraser in Mexico City

THE Mexican government has sent Congress plans for a budget surplus next year of 1.7 per cent of GDP, and is forecasting an inflation rate of 7 per cent and growth of 3 per cent.

The tight budget, which is sure to be approved by the Congress, reflects the government's determination to achieve single-digit inflation next year. At a time of sluggish growth, it reveals the concerns over the financing of the current account deficit in an uncertain international environment, and the desire to put in place the conditions for sustained low-inflation growth in time for the 1994 presidential election.

The government will run a budget surplus of 0.4 per cent of GDP this year, but inflation will be around 11 per cent, and the current account deficit 6 per cent of GDP, according to official forecasts.

The high budget surplus reflects in part a change in definition of government spending, which now excludes state bank credits to the private sector. Under the definition used for this year's budget, the surplus would have been 0.7 per cent of GDP.

The government said total spending next year would fall 0.2 per cent in real terms, thanks in large part to an expected reduction on interest payments on the public debt of 20.7 per cent compared to this year. While the government expects to run a primary surplus of 4.8 per cent of GDP next year, spending on social programmes, as defined by the government, will increase by 13.7 per cent.

The budget predicts a current account deficit of 6 per cent of GDP next year.

The presidency said the budget was aimed at achieving four objectives: to reduce inflation to 7 per cent, promote employment and achieve growth of 3 per cent, deepen structural reforms to make the economy more productive, and promote social development by supporting needy sectors.

The main winners from the budget are education, health and rural development, which have been granted 15.3, 12.8 and 9.3 per cent increases in spending respectively. The president's anti-poverty programme also receives a spending increase of of 4.7 per cent in real terms, to $2.5bn (£1.6bn), although the increase is smaller than in past years.

The Bank of Mexico reported inflation at 0.7 per cent in October, bringing the cumulative rate for the first 10 months to 9.5 per cent.

The first head has rolled in an investigation of the controversial search during the election campaign of the passport files of President-elect Bill Clinton, seen above in Little Rock with Vice President-elect Al Gore yesterday, George Graham writes. Critics claimed the Bush administration was seeking information to damage Mr Clinton's campaign. The State Department said yesterday that Ms Elizabeth Tamposi, the assistant secretary for consular affairs, who organised the search, has been given until this afternoon to clear her desk.

Argentina's trade gap growing

MR Domingo Cavallo, Argentina's economy minister, has admitted that this year's trade deficit is likely to be far larger than he estimated less than three weeks ago, John Barham writes from Buenos Aires. In a speech to businessmen on Monday, he also warned that economic integration with Brazil was at risk.

Mr Cavallo said that he now expected a deficit of $1.2bn-$1.4bn in 1992, after forecasting last month a deficit of up to $1bn (£645m). Argentina has not seen a trade deficit since 1981 and in 1991 ran a $3.87bn surplus.

Mr Cavallo had said a deficit would be covered by capital inflows or would force an adjustment in the domestic economy. However, last month he trebled to 10 per cent a tax on nearly all imports, to try to slow shipments from Brazil, Argentina's partner in the Mercosur trade pact.

Mr Cavallo warned in his speech that economic instability in Brazil was making integration impossible.

Chile's ex-chief of secret police on trial

By Leslie Crawford in Santiago

THE already fragile relations between Chile's civilian and military leaders were shaken yesterday by the start of the country's first human rights trial since the return of democracy in 1990.

Retired Gen Manuel Contreras, secret police chief during the bloodiest years of Gen Augusto Pinochet's dictatorship, has been charged with the murder of Mr Orlando Letelier, a friend and foreign minister to the late Socialist President Salvador Allende.

Mr Letelier and his American secretary, Mrs Ronnie Moffit, were blown up by a car bomb in Washington in 1976.

The prosecution of Mr Contreras is seen by human rights groups as a symbolic trial of those who masterminded the worst crimes of the dictatorship. More than 2,300 people were executed for political reasons, died under torture or "disappeared" during Gen Pinochet's 16-year rule.

Mr Letelier's remains were brought back to Chile last week and received a state funeral, with President Patricio Aylwin and his entire cabinet in attendance. Mr Letelier's son Pablo, a Socialist deputy in Congress, said he hoped the Supreme Court would have the courage to administer justice.

Gen Pinochet's army is now being besieged on several fronts. It is trying to block other investigations into past human rights abuses. Its intelligence services have also been accused of tapping politicians' telephones.

The army has responded by detaining the army officer who leaked information on its clandestine spying activities and prosecuting journalists for sedition. The military have refused to give evidence before a congressional committee investigating the spying charges.

These scandals are testing the limits of Chile's new democracy. The army believes civilian leaders are breaking the tacit rules under which Gen Pinochet agreed to relinquish power in the negotiated political transition.

Gen Pinochet warned recently that his army was a "sleeping lion" which could be aroused from its slumber if provoked too far.

Fujimori out to win after redrawing rules

Sally Bowen looks at Peru's forthcoming elections

A BEWILDERING array of logos will confront Peruvian voters on congressional election day, November 22. Eighteen party symbols, including a ship's wheel, clasped hands and a broom, will vie for the voter's preference. But other long familiar symbols – the Apra star and United Left's flag – will be notably absent.

For the Peruvian political panorama has greatly changed since President Alberto Fujimori dissolved the previous congress and suspended the constitution on April 5. He has adroitly redrawn the rules of the political game and, ever a shrewd interpreter of the national mood, positioned himself for what looks set to be a comfortable majority in his new, one-chamber house.

September's spectacular capture and the consequent speedy sentencing of Mr Abimael Guzmán, leader of the Shining Path guerrilla movement, proved a timely boost to Mr Fujimori's personal popularity. Mr Manuel Torrado, political analyst at Datum, a leading Lima market consultancy, now gives the Peruvian president an approval rating "higher than any other head of state in the world".

Improvisation has been Mr Fujimori's strongest suit ever since his unprecedented 1990 presidential victory, which broke every rule in the election consultants' handbook. This time, he has resuscitated his original but ineffectual "Cambio [Change] 90" party and merged it with a group of "independents" called "New Majority" to form an official list.

The leader of this pro-government effort is Mr Jaime Yoshiyama, previously a respected mines minister and head of the government's privatisation office. His campaign advisers portray him as a successful entrepreneur and a "provincial" made good. As a politician and potential leader of the future congress, he looks naive and inarticulate.

But this, in today's Peru, is a virtue. Mr Yoshiyama's appeal to the electorate is strongly reminiscent of the 1990 Fujimori message. His running-mates are "independents, pragmatists, technocrats" – above all, non-politicians.

"Peruvians are rejecting the politics of the past," says Mr Torrado. "Voting had become a product of despair, since hope had already been killed a hundred times. There's no support for any pre-1990 politician."

Aware of this, Peru's two most powerful traditional parties – claiming they will not collaborate with a "dictator" – have decided to boycott these elections. They are former President Alan García's left-wing Apra party and twice-president Fernando Belaúnde's centrist Popular Action Party. Between them, they are thought still to command the backing of around a quarter of all Peruvian voters.

> Improvisation has been Mr Fujimori's strongest suit ever since his presidential victory

Where will this sizeable chunk of votes end up? Probably in widespread spoiling of ballot papers, opinion surveys indicate. But paradoxically, this type of protest-voting will only bump up the final percentages for each list, benefiting the "official" party still further.

So far, Peruvians seem to be viewing the electoral process with resigned apathy. Opposition criticism of Mr Fujimori has generally been muted as politicians, reeling after months of unrelenting attack from a hostile executive, struggle to depict themselves as constructive.

Among the established parties and individual members of the dissolved congress reconciled to participation in next week's elections are the Popular Christian Party headed by Ms Lourdes Flores Nano, a respected, young lawyer; Mr Rafael Rey Rey, who entered politics in 1990 alongside presidential candidate and author Mr Mario Vargas Llosa, who founded the "Renewal Movement"; and former Aprista Mr Jose Barba Caballero, who has broken party ranks to found his own "Democratic Co-ordinator" movement. Left-wingers are lightly sprinkled among other lists.

But Mr Fujimori looks unbeatable. His unabashed electioneering on behalf of the official alliance – and overt warnings to the electorate that Peru will be "ungovernable" if he fails to secure a majority in the new congress – seem already to have convinced upwards of a third of the Peruvian population.

The unexpected discovery of a $400m (£258m) fiscal surplus has permitted a carefully-timed relaxation of the government's austere economic programme to permit spending on "social" projects. Small-scale public works, and more traditional presidential handouts, are finally reaching even Peru's remotest areas.

These slight signs of economic reactivation, combined with a series of unquestionable successes against the country's two guerrilla movements, seem to have been enough to imbue the volatile Peruvian electorate with an overdose of national optimism. But analysts fear that, even with the renewed inflow of international funding expected in the wake of the elections, expectations of a swift economic upturn may be dashed.

Whether the now rudderless Sendero Luminoso guerrillas prove strong enough seriously to disrupt next week's elections is a final imponderable. Some Sendero experts forecast the movement will seek to regroup and focus its threats on municipal elections early next year, rather than on the congressional polls.

Scandal costs job of India's top law officer

By Stefan Wagstyl in New Delhi

THE Rs35bn (£806m) Bombay securities market scandal yesterday claimed its most prominent victim when Mr G. Ramaswamy, the attorney general, resigned following intense public criticism of his role in the affair.

According to his aides, Mr Ramaswamy cited ill health as the reason for his resignation. But it was widely believed in New Delhi last night that he had quit because of attacks on his connections with Standard Chartered Bank, the British-owned bank which has suffered heavy losses in the scandal.

Mr Ramaswamy's resignation could help Mr Narasimha Rao, the prime minister, distance his government from the scandal at a critical moment. A parliamentary committee looking into the affair is to examine key witnesses in the next week, including Mr Harshad Mehta and Mr Bhupen Dalal, the stockbrokers at the centre of the scandal.

At the end of the month, parliament is due to meet for the first time since the summer, and opposition MPs plan to attack the government's handling of the affair. Also, the Reserve Bank of India, the central bank which has published three reports on the scandal, is expected to release a fourth in the near future.

Mr Ramaswamy is the third public figure to resign over the affair, which erupted in April in the inter-bank securities trading market. He follows Mr P. Chidambaram, the former commerce minister, who quit because of a small investment in a scandal-tainted company, and Mr V. Krishnamurthy, a former leading public sector industrialist and member of the government's planning commission, who has been charged with corruption offences over alleged links with Mr Mehta.

Mr Ramaswamy, who is 63 and has been attorney general since 1990, was yesterday said to be in Madras, south India, and was not available for comment. A government spokesman confirmed the attorney general had resigned but offered no explanation.

Mr Ramaswamy made his name as one of India's toughest and most successful lawyers and one who was never shy of promoting his own cause. "I am considered No 1," he once told an interviewer. He frequently handled sensitive political cases, including the assassination of Mrs Indira Gandhi, the former prime minister.

His involvement in the securities scandal started with revelations that he was granted a Rs150,000 unsecured overdraft facility by Standard Chartered. Accusations followed that he had given legal advice to the bank about the scandal.

Mr Ramaswamy and the bank denied there was anything untoward about the overdraft, which has been repaid. They also denied that Mr Ramaswamy had given the bank legal advice.

Mr Ramaswamy admits he had a visit from Mr Barry Northrop, the bank's special representative for India and executive in charge of handling Standard Chartered's involvement in the scandal, but says it was "a courtesy call."

In a magazine interview last month, Mr Ramaswamy said: "I swear I had nothing to do with Standard Chartered Bank." However, some of Mr Ramaswamy's fellow lawyers are unconvinced and the Delhi High Court Bar Association has started action to end his membership.

Australia mulls over labour reform battle

Victorian state-wide general strike shows weaknesses in union support. Kevin Brown reports

AUSTRALIA'S trade union movement sent a powerful warning yesterday to conservative political leaders planning radical reform of the country's 90-year centralised industrial relations system.

About half a million workers in Victoria, the second most populous state, obeyed union calls for a 24-hour strike against reform legislation introduced by the state's newly elected conservative government.

Mr Paul Keating, Australia's Labor prime minister, claimed that the strike was a foretaste of the industrial chaos which would engulf the country if the conservatives win the federal election due by June.

However, while the strike crippled the public service, it failed to stop work at more than a handful of private-sector companies, suggesting that the unions' ability to mobilise effective opposition is limited.

This weakness could be crucial to the conservative Liberal/National Party coalition, which is drawing up plans for similar reforms in other states and at federal level.

Mr John Hewson, the federal conservative leader, knows that winning the election will depend partly on his ability to persuade voters that reform is both necessary and achievable without undue pain.

Conservative officials claimed yesterday that the partial failure of the strike shows that a determined government with a clear mandate could achieve change without prolonged industrial disruption. Mr Jeff Kennett, the premier of Victoria, said the strike was pointless in the face of the public support for his proposals that was demonstrated by the landslide state election victory over Labor in October.

But the conservatives face a more difficult task in demonstrating to a sceptical workforce that their proposals to scrap nearly a century of centralised control of the workplace are necessary.

Under the existing system, pay and conditions for about 80 per cent of workers are governed by federal and state industrial relations commissions with wide-ranging judicial powers. The commissions can order compulsory arbitration of industrial disputes, and have the power to fine or imprison workers and managers who refuse to accept judgments.

Traditionally, unions and employers briefed lawyers to appear before the federal commission once a year to argue for or against an across-the-board increase in wages for all workers. Most workers are also covered by occupational "awards" ensuring, for example, that plumbers of similar experience receive comparable wages no matter where they work.

Until recently, the system paid little regard to productivity or individual employers' ability to pay. It also discouraged profit-sharing and performance-related pay, except for those managers exempt from award conditions.

However, the system has begun to change in response to international competitive pressures resulting from the gradual reduction of tariff protection for Australian industry.

The annual basic wage case has been abandoned, the commissions have redefined their role as protectors of minimum standards, and the number of separate awards has been streamlined. For example, 388 job classifications in the metals industry have been reduced to 14.

An element of productivity bargaining has been achieved by encouraging employers to pay "over award" rates to productive workers, and by amending the legislation to allow limited bargaining at company or plant level.

Union rationalisation has cut the number of unions from 326 in 1986 to 250, helping to streamline bargaining and

A protester is carried off yesterday during a 100,000-strong demonstration by strikers in Melbourne

reduce demarcation disputes between unions. Moreover, the Labor government has negotiated a series of accords in which the unions traded pay restraint for tax cuts and improvements in government services such as medical care.

The result has been a 60 per cent fall in the number of industrial disputes and a cut of 8 per cent in real unit labour costs since 1983. Big companies such as National Australia Bank and Broken Hill Proprietary (BHP) have been quick to negotiate productivity agreements.

However, the changes are less popular with small and medium-sized businesses, which account for the bulk of Australia's economy. Mr Ian Spicer, chief executive of the Australian Chamber of Commerce and Industry, says that most of the productivity agreements are "quite uninspiring".

The chamber, which represents most smaller businesses, says genuine productivity bargaining is hampered by a requirement that agreements must not leave workers worse off and that this significantly reduces potential gains for employers.

The commissions also retain the power to amend agreements and even block them, as the federal commission did in a recent case involving Qantas Airways.

The federal conservative coalition's proposals would encourage a decisive shift to productivity bargaining by removing the power of the commissions to vet agreements or order compulsory arbitration, except with the consent of both employers and workers. The proposals would also end compulsory trade union membership, and scrap the accord system, significantly reducing the role of the trade unions in running the economy.

However, the coalition would enshrine minimum wages and conditions in law and has stopped short of the Victorian government's proposals to ban holiday bonuses and impose a cooling-off period on strikers.

The state government, backed by a big parliamentary majority, is unlikely to back down, raising awkward questions about what the unions should do next, especially when control of events passes from the Victorian unions to the more moderate Australian Council of Trade Unions (ACTU).

Mr Martin Ferguson, ACTU president, describes the coalition's proposals as "a return to the ratbag world of industrial relations," but his most recent attacks have been laced with indications that the unions may compromise.

"If there is a change of government at the next election, the ball is in the coalition's court," he said. "The union movement will not pick an industrial relations brawl. But if we are backed into a corner, there is the capacity for [Australia] to lose everything we have achieved."

Indonesian export rise eases fears on debt servicing

By William Keeling in Jakarta

INDONESIA'S latest trade figures have eased concerns over the country's ability to service its foreign debt, although economists have warned the government not to loosen control over offshore borrowing.

Between 1989 and 1991, Indonesia's international debt rose by more than 40 per cent to about $80bn (£53bn) and donors warned of a potential debt crisis.

At the start of 1992, Indonesia had a debt service ratio of 32 per cent of export proceeds.

January to August trade figures, however, showed a 22.6 per cent year-on-year rise in non-oil exports to $14bn, more than offsetting a 9 per cent decline in the value of oil and gas exports to $6.9bn in the same period.

International debt, a third of which is owed by private companies, has been held steady this year following a government decision in late-1991 to set a ceiling on new borrowing. All offshore loans must now receive the approval of a government committee.

The growth in exports will lower the debt service ratio, forecast by economists to fall below 29 per cent by next year. It is also a sign that new plant and machinery, imported on the back of foreign borrowing, is coming on stream.

However, Mr Sumitro Djojohadikusumo, a former finance minister and leading businessman, recently warned the government not to relax its control over debt.

Mr Djojohadikusumo described the current debt service ratio as critically high and said it should be reduced to 25 per cent by 1997.

Bankers in Jakarta believe his warning has been sanctioned by government ministers in an attempt to dissuade some private companies from embarking on large-scale, ill-conceived, projects using offshore finance.

Tokyo claims machinery orders are rising

By Charles Leadbeater in Tokyo

A SHARP fall in Japanese private sector investment in new machinery over the last two years is close to bottoming out, government officials suggested yesterday after reporting a 7.9 per cent increase in orders in September.

Yet the officials from the Economic Planning Agency warned that private sector orders in the final three months of this year would be 11.2 per cent down on the third quarter.

The increase in machinery orders was a welcome relief for Japan's political leadership after a stream of statistics which have shown the economy is still in fragile health. Mr Kiichi Miyazawa, the prime minister, told a meeting of the ruling Liberal Democratic party policymakers that it would not take long before the economy bottomed out.

However, a supplementary budget which is central to the implementation of the emergency public spending package announced in August is unlikely to be debated soon by the Japanese Diet (parliament).

Mr Kozo Watanabe, minister for international trade and industry, said the supplementary budget would only be debated towards the end of the 40-day extraordinary session of the Diet which began on October 30.

Debate on the budget has been held up by the protracted and increasingly intense political power struggle within the LDP and between it and the opposition parties over the Tokyo Sagaw Kyubin bribery scandal.

The LDP yesterday moderated its stance in the dispute by agreeing in principle that some of its leaders could be called to give evidence to a parliamentary committee over their role in the affair.

However, the three main opposition parties are insisting they will not agree to a detailed timetable for discussing the budget until it is clear which LDP leaders will give evidence and whether they will appear as sworn witnesses.

Mr Noboru Takeshita, the highly influential former prime minister, is top of the list of leaders which the opposition wants to question.

Despite the delay to the budget, spending on public works is increasingly rapidly. Starts on public construction programmes rose by 41.5 per cent to a record monthly Y2.3bn (£12.2m) in September, according to the construction ministry.

Much of the public works investment in the Y10,700bn package is being financed by the so-called shadow budget, the Fiscal Investment and Loan Programme, which is not subject to detailed scrutiny by parliament.

Japan relaxes controls on share purchases

By Robert Thomson in Tokyo

JAPAN'S ministry of finance yesterday relaxed controls on share purchases by individual investors, but the announcement failed to revive turnover on a still ailing Tokyo stock market.

Under new regulations, foreshadowed in emergency measures announced in August, individual investors will be allowed to accumulate share holdings in a chosen company by progressively investing a minimum of Y10,000 (£53) with a securities house.

The ministry also said controls on employee share ownership schemes will be eased, allowing members to change

their monthly contributions at any time, instead of the present once or twice a year. Also, these schemes will be extended to include stocks traded on the over-the-counter (OTC) market.

Japanese brokers hope the changes will encourage individuals to increase their share purchases over the longer term, but said the measures were unlikely to inspire an immediate leap in share trading. The Nikkei market average rose a meagre 20.06 to 16,437.11 in thin trading.

The measures have been discussed for several years, but the finance ministry quickened its consideration and signalled the rule changes when the Nikkei average hit 14,301.49 in August.

Individual investors' enthusiasm for stock purchases has been cooled by the collapse of prices since December 1989, and by a spate of securities industry scandals last year, when leading brokers admitted that they compensated corporate customers for trading losses.

The share of stocks held by individuals has fallen from 27.9 per cent of the total in 1980 to 20.3 per cent last year. Sales of stock investment trusts, preferred by individual investors, have fallen two thirds over the past two years, while redemptions last year were more than four times higher than in 1989.

Officials at the Japan Securities Dealers' Association said individuals would return to the market if the finance ministry agreed to tax breaks on dividend income and capital gains.

The ministry has given no indication that it will soon provide those tax breaks.

A separate securities industry body, the Conference for Securities Associations, said a rise in individual investment would provide greater liquidity in a market clogged by corporate cross-shareholdings that are rarely traded.

The body advised Japanese companies to increase their dividend payments, though falling profits this year have forced many companies to cut dividends.

Israel's biggest company seeks $180m financial aid

By Hugh Carnegy in Jerusalem

ISRAEL Aircraft Industries, the country's biggest company and flagship of the important state-owned defence sector, has announced that it is seeking $180m in emergency financial aid from the government following a collapse in sales over the past six months, officials said yesterday.

The surprise move is an alarming sign for the government of the extent to which Israel's military-based industries continue to be hit by falling worldwide demand.

Until recently, IAI appeared to be secure, sustaining annual overseas sales of $1.25bn (£822m) – 17 per cent of Israel's industrial exports.

Now IAI says it needs a $180m injection of loans and capital from the government to stay afloat.

The company plans to cut its 17,000 workforce by 1,500 and wants to cut wages by 10 per cent.

This follows demands from Israel Military Industries, another state-owned arms-maker which makes the Uzi machine gun, for a $350m rescue package. It plans a cut in its workforce by 40 per cent to 4,500.

IAI has suffered this year from falling orders from the Israeli defence forces. But, ironically, its latest troubles are largely due to a slump in civilian contracts, which it had built up to 20 per cent of export sales to offset stagnating military demand.

A deal to make parts for the MD-12, a new McDonnell Douglas civilian airliner, has been put on hold along with the aircraft itself.

A contract with Electra Aviation of the UK to convert 10 Boeing 747 passenger aircraft to cargo carriers has been cancelled, with IAI forced to buy out the first aircraft on which it had already begun work.

Another contract with Dornier of Germany has been delayed.

Mr Doron Susslick, IAI's communications director, said the company lost $18m in the first half of this year. In 1991, IAI had net profits of $22m on sales of $1.6bn.

● Workers at Bezeq, Israel's state-owned telecoms monopoly, have ended a week-long strike called to protest at plans to allow private competition in portable and international telephone services without any apparent concession by the government.

Thais reluctant to seal Khmer Rouge border

By Victor Mallet in Bangkok

THAILAND'S civilian and military leaders have signalled a reluctance to impose economic sanctions on Khmer Rouge guerrillas in neighbouring Cambodia, one of the measures being considered by the United Nations in an attempt to force the Khmer Rouge to comply with a Cambodian peace plan.

In Bangkok yesterday Mr Hun Sen, head of the Cambodian administration which is still engaged in sporadic fighting against the Khmer Rouge, met Mr Chuan Leekpai, the Thai prime minister, and told him that the cross-border trade with Thailand was helping the defiant Khmer Rouge leadership.

But Mr Chuan said after the meeting: "I told him we can't erect barbed wire all along the border... People who live in the area are related so it is impossible to stop their contacts."

The Thai armed forces, which control the border zone and have profited from commissions on the trade, are equally unenthusiastic about sanctions. They say that the border is difficult to monitor and that the Khmer Rouge would in any case be able to survive a blockade.

Gen Charan Kullavanijaya, secretary general of the Thai National Security Council, this week dismissed the sanctions as "western style of thinking."

The Khmer Rouge is thought to earn at least $100m a year by selling gems and timber from their strongholds in northern and western Cambodia to Thai businessmen, who in turn sell oil and other supplies to the guerrillas.

UN officials and western diplomats are considering the imposition of sanctions following the failure of the Khmer Rouge to comply with the peace plan that they and the other Cambodian factions accepted in Paris a year ago.

Thailand has announced that it would obey whatever decision is taken by the UN Security Council at a meeting expected to be held later this month, but the Thais are making it clear they consider sanctions undesirable and impractical. While proponents of sanctions agree a blockade is unlikely to be watertight, they think it possible to stop truck-loads of timber from crossing the frontier.

Monitoring sanctions against the Khmer Rouge will be difficult because the areas controlled by the four Cambodian factions are constantly shifting and poorly defined.

Jordanian MPs are found guilty of conspiracy

By James Whittington in Amman

JORDAN'S state security court yesterday sentenced two MPs to 20 years in prison with hard labour after being found guilty of belonging to an illegal armed group which the court said had conspired to replace the Hashemite monarchy with an Islamic state.

They are Mr Leith Shbeilat, the country's most popular MP and his friend and colleague, Mr Ya'akub Qarrash.

Two merchants from Amman were also sentenced on the same charges for 10 years each.

All four sentences were commuted from the death penalty by Lt Col Yousef Faouri, the presiding judge, who delivered the verdict in a two-and-a-half-hour court session.

Amman was heavily policed during the sitting, with two army helicopters circling to watch for demonstrations while troops and police cordoned a wide perimeter around the court.

Mr Ishak Sarhan, a prominent member of the Moslem Brotherhood and member of the appointed Upper House of parliament, said he was astonished at the severity of the verdict.

"I am stunned and I don't think people will accept it," he said outside the court.

Mr Mazzin el Hadid, Mr Shbeilat's lawyer who was appointed by the court after the original defence pulled out, said: "The sentence is very harsh but we respect the court's decision."

The case against Mr Shbeilat and Mr Qarrash has been highly controversial since the two MPs were arrested late in August.

Both men frequently voiced their Islamic fundamentalist beliefs and the latter, in particular, was vocal in calling for democratic change and in pursuing alleged government corruption.

One senior government source described the outcome of the case as "a warning from the regime to others who want to move too fast".

The verdict must be authorised by Sharif Zeid ben Shaker, the prime minister, before it takes effect.

Some Jordanians believe King Hussein, who celebrates his birthday on Saturday, may intervene further to commute the sentence.

NEWS: MATRIX CHURCHILL

Ministers face sack if they fail to testify to inquiry


Attorney-general Sir Nicholas Lyell yesterday denied a cover-up

By Ivor Owen, Parliamentary Correspondent

Labour alleges cover-up as doubts unresolved about whether Alan Clark will be compelled to give evidence

MINISTERS who refuse to give evidence to the judicial inquiry into the sale of defence equipment to Iraq would be sacked, Mr John Major said in the Commons yesterday.

The prime minister's warning came amid Labour allegations that the government was engaged in a cover-up over the extent of ministers' knowledge of the sale of defence equipment to Iraq in the run-up to the Gulf war.

The allegations were repeatedly denied by Sir Nicholas Lyell, the attorney-general, as the storm broke over what Mr Paddy Ashdown, Liberal Democrat leader, called a "murky and black business".

Suspicions on the opposition benches were fuelled by unresolved doubts over whether Mr Alan Clark, the former trade minister, could be compelled to give evidence to the judicial inquiry to be conducted by Lord Justice Scott.

Mr Major came to the assistance of Sir Nicholas as he struggled to assure opposition critics that members of the government would give evidence to the tribunal if "invited" to do so.

The attorney-general's protestations that it was inconceivable that ministers would refuse to comply with a request from Lord Justice Scott were brushed aside. After a whispered conversation with Mr Major, Sir Nicholas said that, if necessary, the prime minister would order ministers to give evidence.

Sir Nicholas stressed: "If anybody sought not to attend, which I find inconceivable, they would be unlikely to remain ministers for long if they disobeyed such an order."

Mr Menzies Campbell, Liberal Democrat MP for Fife North East, sought clarification of the position if a former minister declined to give evidence to the inquiry.

Miss Betty Boothroyd, the speaker, replied that as the inquiry was not being conducted by the House she thought it would have "no authority" in the matter.

Sir Nicholas rejected demands that it should be conducted under the terms of the 1921 Tribunal of Inquiries Act so that Lord Justice Scott would have the power to summon witnesses and cross-examine them under oath. He stressed that the 1921 tribunal procedure had "disadvantages," including the fact that it was likely to prevent any prosecutions being launched subsequently.

Mr David Winnick, Labour MP for Walsall North, said: "Could there be a greater contrast between the honour and integrity of the judge in this court case and ministers who apparently were quite willing to send innocent people to prison and whose record and reputation is such that they should consider as quickly as possible – if they have any honour left – of resigning long before this judicial inquiry begins?"

Mr Ken Livingstone, Labour MP for Brent East, angered Conservative MPs by asking if the inquiry would be able to examine the alleged role of Mr Mark Thatcher, son of the former prime minister.

He asked: "Will the officers of MI5 and MI6 be under compulsion to tell the inquiry whether they advised the former prime minister of her son's arms dealings in this area and his own involvement in the shipment of munitions to Iraq?" Miss Boothroyd told him: "That is not a matter for the Speaker."

In an exchange with Mr John Smith, the Labour leader, the prime minister referred to "extraordinary stories" concerning the matter, and added "they must be clarified beyond any measure of doubt".


Shadow attorney-general John Morris: opposition suspicious

Waldegrave fought a rearguard action against Clark and Trefgarne, report **Richard Donkin** and **David Owen**

How and why UK Ltd helped the Iraqi war effort

PREVIOUSLY classified government documents released during the Matrix Churchill trial reveal an aggressive determination by the Department of Trade and Industry to support exports to Iraq in the three years prior to the 1990 Gulf war.

Document after document shows the evolution of government policy on Iraq and how Foreign Office minister Mr William Waldegrave fought an unsuccessful rearguard action against pressure from Mr Alan Clark, trade minister, his successor Lord Trefgarne, and at later stages against the Ministry of Defence. One document catches the concern in a simple phrase when it says that the intention of the paper is to discuss ways in which "UK Ltd is helping Iraq".

And among the most revealing notes are plans for a ministerial meeting convened by Mr Douglas Hurd, the then foreign secretary, in July 1990. The meeting discussed a detailed review of policy on exports to Iran and Iraq. The final outcome is not clear but machine tools continued to be exported afterwards.

The documents also show that Mrs Margaret Thatcher, the then prime minister, was kept informed about many sensitive exports, although at times it appears she voiced concerns.

One document suggests Mrs Thatcher may have been informed of applications to supply equipment with a potential military role to Iran and Iraq as early as February 1988.

The documents show a picture of civil servants across three Whitehall departments almost casually discussing the extent to which the guidelines on exporting arms to Iraq were ambiguous or circumventable.

They indicate a consistent picture of the Department of Trade and Industry and, to a lesser extent, the Ministry of Defence champing at the bit to grant licences while the Foreign Office sounded a note of caution.

As 1988 wore on, a logjam of licence applications for export of dual-use equipment to Iraq and Iran built up. Decision-makers, meanwhile, pondered the consequences as the ceasefire process between the Gulf war belligerents continued.

This culminated in a strongly worded letter dated November 4, 1988, arguing for a "marginal relaxation of controls" from Mr Alan Clark, then minister for trade, to Mr William Waldegrave, then Foreign Office minister.

The letter notes Mr Clark's concern about "the large number of licence applications for export of dual use equipment to Iraq and Iran agreed at official level but deferred by Ministers." The goods concerned were valued at more than £5.6m for Iran and £3.1m for Iraq and included spare parts for civil aircraft and helicopters, communications and transport equipment and machine tools.

By this time, an element of departmental bickering had crept into some of the correspondence. A memo dated September 30, 1988 and signed by Mr Stephen Lillie, a Foreign Office official, notes that the DTI had requested "retrospective clearance" from the Foreign Office and MoD for "an export licence already issued by the DTI to Matrix Churchill for the temporary export of lathe equipment to the Baghdad Trade Fair".

By the beginning of February 1989, Foreign Office officials were assuring themselves that the intelligence value of the Matrix Churchill contracts would outweigh the potential implications for nuclear proliferation into Iraq.

A detailed memo from Mr Lillie department of the Foreign Office outlines intelligence information that indicated Iraq's intention to use Matrix for the supply of munitions factories in Iraq headed by Dr Safa Habobi, himself a director of the Coventry company.

More alarming was the recognition that Dr Habobi was engaged in attempts to acquire gas centrifuge technology for uranium enrichment in a procurement network outside Matrix Churchill.

Stopping the Matrix exports, the memo concluded, would not prove an effective obstacle to Iraq's objectives. It added: "Neither would it absolve Britain morally from any involvement in this network, since all non-licensable Matrix Churchill equipment would remain freely available to Iraq."

A further important consideration was also vexing the Foreign Office, the memo says. Refusal of the exports licence could force the closure of the company. "If this happened, we would lose our intelligence access to Habobi's procurement network."

The argument was powerful enough to persuade Mr Waldegrave to give his recommendation that the licences be approved.

By September 1989, however, Mr Waldegrave recommended the refusal of further Matrix Churchill licences, arguing that the intelligence considerations no longer applied.

A DTI memo notes that "In December 1988 Ministers agreed on a more flexible interpretation of the guidelines to reflect a more relaxed approach to the less sensitive items such as civil aircraft spares and machine tools."

A DTI memo later that month noted that Lord Trefgarne agreed that the Foreign Office view should be opposed.

A July 17 brief for the minister of defence procurement outlined how the trade and industry secretary had succeeded in securing a ministerial meeting to review policy on defence-related exports to Iran and Iraq two days later. The meeting was to be chaired by the foreign secretary.

The paper outlines the expected stance of the Foreign Office, Treasury, and the Ministry of Defence. The Foreign Office, it said, would "shy away" from removing the guidelines altogether, and the Treasury would focus on the implications of further defence exports to Iraq on the critical state of its finances.

By this time the policy had been long established. Increasing fear of public exposure was growing throughout the late 1980s. As one memo recorded: "The Minister should be made aware of this unfolding situation, especially since it could reach the Press . . . "

Uncertainty over how much Customs knew

By John Mason

THE COLLAPSE of the Matrix Churchill case raises questions about the co-operation between Customs & Excise and other government departments over the prosecution.

In particular, it remains unclear to what extent Customs was aware of the "dirty washing" that would emerge from Whitehall before mounting the prosecution.

Customs has had an independence since its early days of catching smugglers on Cornish beaches. It is accountable only to the Treasury and able to bring cases to court without reference to the director of public prosecutions.

The Matrix Churchill prosecution, some argue, is a demonstration of that independence as Customs pressed on with its case, regardless of the embarrassment caused to other government departments. But defendants and others have questioned whether Customs was fully in the picture.

The official Customs explanation for the trial collapsing remains – that inconsistencies in evidence given by Mr Alan Clark before the trial and then in the witness box meant the prosecution no longer had a case against the three men from Matrix Churchill.

Its officials argue that the courtroom revelations – that ministers knew from late 1987 onwards that the exports were for military use but approved them to protect intelligence sources – were irrelevant to their case. The prosecution failed on the one point only – the inconsistencies of Mr Clark's evidence.

Others consider this view disingenuous. The case in effect fell apart as soon as evidence was produced showing ministers knew the exports were for military use in 1987, they argue.

In June 1990, when Customs began its investigation after being tipped off by their West German counterparts, the reaction from other parts of Whitehall – particularly within the Department of Trade and Industry, was nervous. The "dirty washing" memo was only one indication of the sensitivity of the subject.

As Customs investigated the case, it was highly dependent on co-operation from other government departments – notably the DTI, Foreign Office, Ministry of Defence, MI5 and MI6. The co-operation produced evidence such as witness statements. These included that given by Mr Clark.

Customs yesterday insisted it had received full co-operation from other departments and that all relevant documents had been produced. But it could not confirm that the 500 documents which formed the basis of the defence case had been shown to them before September this year.

Letter for the defence

The following was submitted to the court in evidence

FROM Alan Clark, then trade secretary, to William Waldegrave, minister of state, foreign and commonwealth affairs
Downing Street
London SW1A 2AL
4 November 1988

End of the Gulf War: Defence Sales Guidelines

I am concerned about the large number of licence applications for export of dual use equipment to Iraq agreed at official level but deferred by ministers. The goods concerned, totalling over £5.6m for Iran and £3.1m for Iraq, include spare parts for civil aircraft and helicopters, communications and transport equipment and machine tools.

Para 2 of the official's note enclosed with Geoffrey Howe's of 31 August suggested: "We can use discretion within the ministerial guidelines to adopted a phased approach to borderline cases, relaxing control on a growing number of categories as peace takes hold." It would in my view be entirely consistent with this policy to issue without further delay the licences mentioned above. Not to do so will harm the efforts of British companies to re-establish themselves in both markets and deny them industrially valuable orders. Our international competitors are not so inhibited and this case for continuing to apply a wide ranging unilateral UK embargo on defence sales is now well-nigh impossible to justify to British firms. The ceasefire holds and while I am aware that substantive peace negotiations have yet to get off the ground, I doubt if it could seriously be argued that progress would be affected by such a marginal relaxation of controls by the UK.

Apart from outstanding applications, there are important new orders to be won if licences are available. A prime example is a £14m contract for Westlands for refurbishment of two UK built Iranian hovercraft. This would provide 120 man years work in a severly depressed sector of industry. The work in the UK would take 18 months and the Iranians would meantime be denied use of the craft – urgently needed for rehabilitation of Iran's offshore oil industry. But Westlands will not get the contract without an assurance of a re-export licence and the work may be lost to Australia or the Soviet Union. Licence applications for this work have hitherto been resisted on the basis that that refurbishment would upset the strategic balance in the Gulf. Continued denial of licences on these grounds would strain credulity.

I hope that you and David Trefgarne can agree to the above proposals. I recognise, of course, that whatever is agreed between us will require the prime minister's approval in the light of her private secretary's letter of 2 September. I would not propose an announcement of any decision to issue the outstanding licences but we should be prepared to explain our decision if necessary and appropriate defensive briefing would need to be available to meet possible criticism.

I am copying this letter to the prime minister and David Trefgarne.

This is important!

Lord Justice Scott no stranger to such issues

By Robert Rice, Legal Correspondent

LORD Justice Scott, who will head the judicial inquiry into the Matrix Churchill affair, is no stranger to dealing with sensitive issues involving the security and intelligence services.

In 1983 as a newly appointed High Court judge, he presided over the case brought by the government against The Guardian newspaper for return of a confidential document leaked by Ms Sarah Tisdall, the former Foreign Office clerk.

He ruled that the document should be returned on the grounds that it was government property. Ms Tisdall was later convicted under the Official Secrets Act and jailed for six months.

In 1987 he presided over the first Spycatcher hearings and refused the government injunctions banning newspapers from publishing extracts of the book by the former MI5 officer Mr Peter Wright.

It was this decision which established his reputation as a member of the "liberal wing" of the judiciary, a reputation enhanced when he spoke out in light of the Spycatcher case against the dangers of government legislation on confidentiality.

He also has a reputation for being open-minded and pragmatic. In 1985, agreeing to end a sequestration order that had deprived the South Wales area of the National Union of Mineworkers of more than £700,000 of its funds, he was not troubled by the union's failure to apologise for defying a court order.


Lord Justice Scott

Sir Richard Rashleigh Folliott Scott, 58, is one of three South African members of the higher judiciary. He was educated at Cape Town University and Trinity College, Cambridge, and was called to the English Bar in 1959. He was chairman of the Bar in 1982.

CNC tools 'could make anything'

By Daniel Green

BRITISH and German engineers said yesterday that it was impossible to prevent equipment of the type sold by Matrix Churchill to Iraq from being used for military purposes.

"Machine tools are general-purpose machines," said Mr Michael Bright, chairman of FMT, a Brighton company that was building equipment for Matrix Churchill to fulfil Iraqi orders. "They can be programmed to make anything."

FMT's order was frozen when Iraq invaded Kuwait in August 1990.

In spite of what is common knowledge among engineers, government documents in 1988 show that export licences for machine tools were granted. Departmental committees had determined the equipment consisted of "civilian items of general purpose not destined for a military end use".

Iraq bought computer-controlled machine tools, usually called CNCs (computer numerically controlled). They were of two types: CNC lathes, in which a piece of metal revolves so that cutters shape it into a cylindrical object such as a shell casing, or CNC machining centres, where the cutters move around a stationary block to create, for example, gun parts.

Baghdad chose CNC machines because of their flexibility. In 1990, Matrix Churchill sent engineers to Iraq to oversee a switch to making automotive parts, said Mr Paul Henderson, formerly managing director of Matrix Churchill.

But CNC machines are slower than equipment dedicated to making one item. Iraq's solution was to buy a lot of machine tools: BSA, for example, sent 50 lathes valued at £6.9m. Iraq also ordered from Wickmann Bennett, a Coventry manufacturer, 15 lathes for £11m and another 141 from Matrix Churchill worth £19m. There were other Iraqi orders for German and Swiss companies, said Mr Henderson.

BSA, Matrix Churchill and others then trained Iraqi engineers to programme the machine tools. This meant that even if a machine tool began life making car parts, a technicians could re-programme it using a computer keyboard and simple instructions to make weapon parts. "It's easy to say a machine tool is for one purpose and use it in another way," confirmed Mr Klaus Friedrich, export consultant at the VDMA, the German manufacturing equipment association.

"To stop everything that might be used by foreign armies, you would have to control the exports of 50 per cent of industrial production."

German machine-tool manufacturers were at the forefront of sales to Iraq. Germany is Europe's biggest supplier of machine tools and the Iraqi embassy in Bonn became the Iraqi government's buying office, according to Mr Bright.

Mr Keith Bailey, chairman of BSA, argued that how the equipment was eventually to be used was guesswork.

Clarke denies knowledge of any policy to supply arms to Iraq

THE following account is highlights of an interview with Mr Kenneth Clarke, the home secretary, on the BBC World at One programme yesterday.

Mr Clarke was asked by the reporter Mr Roger Currell why he had signed a certificate apparently aimed at restricting the information available.

KC: Well, it's completely news to me that anything in these documents has had any effect on the outcome of the trial. I woke up this morning to find the Public Immunity Certificate being cited in a case which from my reading of the newspapers had turned on the evidence given by Alan Clark. I did sign a Public Immunity Certificate as I many times have after consulting with my lawyers about the documents that we had and we made the usual claim for public interest immunity for those categories of documents that aren't disclosed to the courts.

I certainly didn't seek any immunity in order to conceal from the courts the truth and I think this confused case has been reported in rather an extraordinary fashion this morning. I have personally had nothing ever to do with sales of weapons to the Iraqis and I haven't sought immunity for any documents simply on the basis that they might prejudice a prosecution or be helpful to the defence. I wouldn't dream of signing any such certificate.

Q: Did these papers not cover what was going on behind the scenes, involving arms which were being sold to Iraq, the government's policy over that, the embargo that was supposed to be in place?

KC: Well, quite honestly as we now talk I can't remember. I didn't ban them on that basis. All I sought to withhold from the court was that category of document which governments always seek to withhold from the court, including for example, advice to ministers, and may well also have included, for example, things relating to the work of the security services which governments have always held back . . . All I know is I did not sign any certificate authorising the withholding of documents because they were embarrassing to the government.

Q: But it is being suggested that the government was trying to cover up its secret policy which was to allow certain arms to be sold to Iraq in spite of the embargo.

KC: Speaking for myself I know of no such secret policy. I was never involved in any such secret policy. I have never signed any certificate seeking to conceal any policy of the government.

Q: Do you accept, then, that as a result of this case it has now been shown that the government was conniving to allow arms to be exported to Iraq when it was publicly saying that there was an embargo.

KC: Well, I don't because I have not been following the progress of the case. I have been reading this morning's newspapers which seem to be implying that, but I know of no such policy and I don't believe that there was such a policy. But, certainly, I have no involvement in that kind of thing myself and I do not believe the vast majority of the members of the government could answer that question.

Q: It's being suggested that even John Major may have misled the Commons.

KC: No, no, no, I can't answer. With the greatest respect, you're asking things about which I know nothing. You're asking me about the dafter allegations in this morning's newspapers. One thing I can say, I see the cabinet's meant to have decided all kinds of things which I know perfectly well the cabinet never did. I've never taken part in any discussions on this kind of thing. I think it's highly unlikely John Major ever has either

Devaluation leads to jump in input prices

By Emma Tucker, Economics Staff

A SHARP jump in raw material prices, reflecting the first impact of the devaluation of sterling in mid-September, has raised the spectre of higher inflation. Official figures published yesterday showed that the prices of raw materials and fuels used by UK manufacturers rose to their highest level for two years in October.

Input prices were 2 per cent higher last month compared with the previous month bringing the year-on-year rate of increase to 2 per cent.

Without seasonal adjustment, fuel and raw material prices rose by 2.5 per cent last month from their September levels, with two thirds of that increase reflecting the higher cost of imported goods.

Economists now fear that the higher cost of raw materials will feed through to retail price inflation. They warned that manufacturers would not be able to absorb higher import costs forever and would eventually have to raise prices.

"We are seeing the first stages of an inflationary pick-up," said Mr Nigel Richardson, economist at SG Warburg Securities. Until September, input prices had fallen on an annual basis every month except one since July last year.

This helped push manufacturing output prices – sometimes referred to as core inflation – to their lowest levels since the 1960s.

But since September 16, the pound has fallen particularly sharply against the dollar, in which most raw materials and fuels are priced.

The figures from the Central Statistical Office showed that manufacturers have so far absorbed the higher costs resulting from the weaker pound, frightened that price increases for finished products in the continuing recession would further reduce consumer demand. Consequently, prices of manufactured goods leaving UK factories rose by only 0.1 per cent last month, bringing the annual rate of increase to 3.3 per cent. This compares with 3.4 per cent in the year to September.

"We can take some confidence from the output price series, but that is a lagging indicator and in time it will start to rise", Mr Richardson said.

The government has committed itself to a target range for underlying inflation – retail price inflation excluding mortgage interest payments – of 1 to 4 per cent. Inflation figures due on Friday are forecast to show underlying inflation just within that range in October, at 3.9 per cent.

Excluding the volatile prices of food, drink and tobacco, the output price index was unchanged on the month, and rose by 2.5 per cent compared with a year ago. This was the lowest annual rate of increase of this index for 23 years.

The Treasury said improved unit labour cost performance should help to ease some of the upward pressure on producer prices that inevitably follow a fall in the exchange rate.

The main push behind the non-seasonally adjusted 2.5 per cent increase in raw materials prices last month came from sharp jumps in the prices of petroleum products, metals and other imported materials. There was little gain in prices of domestically produced foods and other home-produced materials.

Input prices will probably rise further next month, reflecting sterling's continued drop against the dollar.

New VAT rules predicted to yield savings

By Charles Batchelor

BRITISH companies face changeover costs of £100m but should make net annual savings of £135m under new European Community rules for collecting value added tax, Customs and Excise announced yesterday.

Publication of Customs' analysis of the costs and benefits of the new VAT system marked the first stage in an intensified publicity programme to make business aware of the changes, which come into effect on January 1. Business organisations and companies of all sizes have expressed concern at the costs and complexity of the new VAT rules.

The new system of collecting VAT and of collating trade statistics has become necessary because of the creation of the European single market and the removal of customs' checks at ports and border posts. Companies will file their own VAT statistics to Customs.

However, doubts were cast yesterday on Customs' calculations. Accountant KPMG Peat Marwick said it had calculated the changeover costs at £200m. It doubted whether Customs had taken into account all the internal costs involved in upgrading companies' systems.

The new VAT regime is intended to be a transitional system to be replaced in January 1997 with a simpler "origin" method of taxing all shipments at the factory gate. But it emerged yesterday that the second changeover in 1997 is not certain.

A move to a pure origin system would only take place if it could be shown that it really would reduce burdens on business, that it did not increase opportunities for fraud and that the UK could continue to zero rate certain goods, Sir Brian Unwin, Customs and Excise chairman said.

The move away from border controls will mean that between 7m and 8m import and export documents will no longer have to be filled in; delays in obtaining customs clearance will cease; and costly bank guarantees to cover deferred VAT payments will no longer be necessary.

Against these savings Customs has set the cost of carrying out the paperwork within companies, of installing and maintaining computer systems and of training managers and staff.

The removal of border controls will require customs to step up other methods of preventing VAT fraud and controlling drugs trafficking, pornography and terrorism. This will be achieved by increased intelligence activity and improved computer links between the different customs authorities. One per cent of freight shipments can expect to continue to be the subject of customs checks.

Mr Ray Walker, chief executive of the Simpler Trade Procedures Board, said the new VAT procedures would "demystify" trade.

Generator outlines coal plan

By Michael Smith

NATIONAL POWER, the UK's largest electricity generator, suggested yesterday that the major part of the UK electricity market should be reserved for coal-based power as a way of sustaining the UK coal industry, writes Michael Smith.

This would involve clearing gas-fired and oil-fired power stations from the "franchise" market in England and Wales, where regional electricity companies have a monopoly to sell to households and small businesses. These account for 70 per cent of all power demand, but prices have been fixed artificially high to help coal.

The company said clearing the franchise market would enable British Coal to increase sales to National Power and PowerGen, its two main clients, from an expected 30m tonnes a year to up to 50m for the four years from 1994.

In evidence to the House of Commons trade and industry select committee National Power said the solution would also test the economies of combined cycle gas turbines in the market. CCGTs would supply only the non-franchise market which sells to large customers and in which British Coal is unable to compete effectively.

● The government will try to ease the uncertainty over British Coal's new long-term coal contracts by stating whether it would be willing to see them concluded before the results of its energy policy review are known.

The electricity industry is trying to pull together a five-year deal with British Coal, on which its future depends. Talks are stalled because several companies are unwilling to commit themselves to a major deal while the review is in progress.

Ulster talks reach an uncertain end

Ralph Atkins reflects on negotiations over the province's political future

MORE THAN six months of talks on Northern Ireland's political future ended last night with the aspirations of unionists and nationalists as far apart as when they started and a last-minute failure to agree even an outline of areas of common agreement.

Negotiations broke up at the former Stormont parliament buildings with a joint statement saying there had been no "accommodation in relation to the deep seated and long standing problems" the participants addressed.

Nor was there a "heads of agreement" document as hoped for last week by Sir Patrick Mayhew, the Northern Ireland secretary. He will make a statement to MPs today.

Although the talks could restart next year, the collapse is a further blow for British and Irish hopes that negotiations could bring movement after two decades of failed political initiatives.

Possible straws of hope are the historic ground that was broken – notably Ulster Unionists negotiating with Irish ministers in Dublin – and the fact that channels of communication have been established and some mutual suspicions broken.

Mr James Molyneaux, Ulster Unionist party leader, said: "We will persevere in our efforts to achieve progress through informal consultations." Mr John Hume, leader of the nationalist Social Democratic and Labour party, said all sides had serious discussions for the first time.

Sir Ninian Stephen, a former governor-general of Australia who acted as independent chairman, said the talks' objectives were still "achievable". Against that is the last-minute procedural squabbling, apparently triggered by the calling of an Irish general election.

But the costs in terms of discouraging investment in the province, and the possible encouragement the latest setback might have given to those who believe a solution requires resorting to violence, are incalculable. Security forces believe the IRA is still potent. Loyalist paramilitaries remain active.

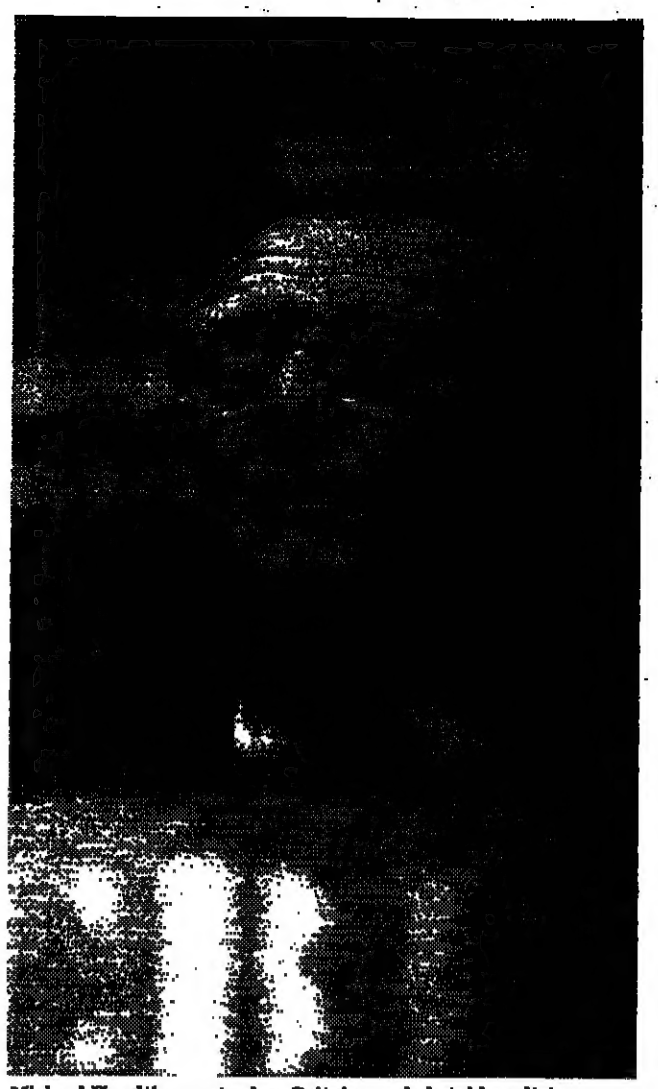
Sir Patrick may find himself under increasing pressure – from local politicians and Tory backbenchers – to set out his own proposals for governing the province.

However, the talks, which began in earnest in April after a brief session before the UK general election, suggest a consensus is elusive.

Additional reporting by Our Belfast Correspondent

CONFEDERATION OF BRITISH INDUSTRY ANNUAL CONFERENCE

Heseltine calls for partnership



Michael Heseltine yesterday: Britain needed stable policies, not the short-term measures which had failed in the past

By Tony Jackson, Industrial Editor

MR Michael Heseltine, the trade and industry secretary, yesterday brushed aside fears over his pledge to intervene in industry and called for a new partnership to rebuild Britain's industrial base.

After listening to criticisms from delegates at the CBI conference in Harrogate, North Yorkshire, about the effect of government policies on business, Mr Heseltine said the debate on the real meaning of any partnership between the government and industry was sterile. The important factor was that any new climate of understanding between the two produced positive results.

Avoiding comment on the detail of tomorrow's Autumn Statement, he stressed that it would set in place the government's policies for stimulating economic growth. The recession, he said, meant Britain needed clear, stable policies, and not the "quick fix" or short-term measures which had failed in the past.

His responsibility, he told the conference, was to promote long-term, effective assistance to business and he intended to ensure it was provided. His ambition was to provide a business support network that was the best in the world.

Mr Heseltine told a still-sceptical audience that the promotion of industrial competitiveness was at the heart of the government's industrial policy, which had to be underpinned by a full understanding of UK industry's position. He added: "We need to build up the impact of industry across Whitehall. That can only be done if we know what we are talking about. We need facts, not assertions. We need to know what is happening in the marketplace."

Mr Heseltine said he had asked Mr Walter Eltis, his chief economic adviser, to ask large companies for their views on the economy, adding: "If such information can inform or alert government then we should have it available".

Calling for tight control on industrial costs, Mr Heseltine said wage settlements at recent levels could not be afforded. Pay rises had consistently run ahead of inflation, and the government and business had an obligation to ensure that excessive pay rises were stopped to help Britain's international competitiveness.

Speaking in the industrial policy debate, Mr Cedric Scroggs, chief executive of Fisons, the pharmaceutical group, said: "The much talked-of economic recovery of manufacturing in the 1980s did not happen". He feared another large slice of manufacturing industry would be "just wiped away in the early 1990s".

Mr David Fyfe of Hickson International Fine Chemicals warned that British industry could not be world-class unless it attracted some of the best brains. For his part, Mr Keith Dutton of Medway Packaging said that although the UK was the most patriotic of nations this patriotism did not extend to the purchase of domestic products.

Conservatives given a rough ride

By Tony Jackson

THE MOST remarkable aspect of this year's CBI conference was the degree of hostility levelled at a Tory government.

This was not a question of mere rhetoric from the CBI's leadership. The most bitter criticism of the government came from the grass roots.

Yesterday's keynote speech by Mr Howard Davies, CBI director-general, was interrupted four times by applause from the floor. One occasion was an attack on the European Commission's inability to deliver a Gatt agreement. The others were jokes at the expense of Mr Lamont, Mr Heseltine and the government's conduct in the Matrix Churchill affair.

The chief target, besides the luckless chancellor, was the Treasury. Speaker after speaker from the floor attacked the Treasury for incompetence and inaccuracy in its forecasts. One suggested that just as Mrs Thatcher had made her mark by taking on the trade unions, Mr Major might do the same by sacking the Treasury.

In a more surprising reversal of conventional attitudes, there was support for the plight of the miners. Mr Heseltine, one speaker said, had declared his support for the Nottingham miners only weeks before the pit closures were announced. "With friends like that," the speaker concluded, "you must know your enemy".

There was applause for a delegate who savaged the government for "setting the miner an impossible target, having him meet it and then firing him when he comes back above ground". The Trades Union Congress, one felt, could not have put it better.

The only target to rival the government in unpopularity was France. "The European Community", a delegate declared, "is a creation of the French for the French, run by the French". The EC, said another, was not in the business of giving handouts – "unless, of course, you're French".

Britain in brief

Tendering plans outlined

The government intends to press ahead with plans to extend compulsory competitive tendering of local-authority services to the clerical sector, but the procedure will be more flexible than previously announced.

Mr Michael Howard, environment secretary, said his department estimated that tendering had generated cost savings of about 6 per cent for manual services such as refuse collection "while standards have in general been maintained or improved".

One change to proposals set out in an earlier consultation paper is that the proportion of councils' spending subject to tendering for construction-related services – architecture, engineering and property management – will be reduced from 100 per cent to 90 per cent.

BBC handover

Sir Michael Checkland, director general of the BBC, announced yesterday that he was handing over to his successor Mr John Birt at Christmas, more than two months earlier than expected.

Training claims denied

The employment department denied claims that fewer than one in five unemployed adults get jobs after completing the government's employment training scheme.

The employment department said about a third of trainees failed to find work after completing the scheme, which mixes work experience with vocational training and is meant to lead to a vocational qualification.

The Unemployment Unit, the independent research group, said unpublished government figures showed only 19 per cent of trainees gained jobs after training compared with 27 per cent a year ago.

BR sell-off questioned

The privatisation of British Rail should be abandoned unless some serious questions about the government's plans can be satisfactorily answered, says the National Consumer Council in a report.

The report is an embarrassment to the Department of Transport because the council is government-funded and its chairman, Lady Wilcox, is a member of the prime minister's advisory committee on the Citizen's Charter. She says the council's own research showed many rail passengers were unhappy with BR, but it was not yet clear that privatisation was the way to make train services better.

Price warning on water

Water companies which are inefficient will be told to hold back price rises in future, said the water industry regulator Ofwat.

Ofwat's consultation paper said it would look favourably on water companies which controlled costs and had high standards of customer service when it conducts its periodic review in 1994 – a wide-ranging assessment of the industry's pricing structure.

The water companies' 10-year modernisation programme to bring water standards in England and Wales into line with EC directives could eventually cost about £45bn.

Management by degree

Just under a quarter of British managers have degrees compared with 62 per cent in Germany, 65 per cent in France and 85 per cent in the USA and Japan.

Mr Michael Harrison, employment deparment advisor on advanced training, said there had been little progress in the development of courses for managers which recognised prior learning.

BUSINESS AND THE ENVIRONMENT

Bicycles speed up the pace

Cost and conviction are boosting the bicycle beyond the automobile as the world's preferred mode of transportation, according to a recent study by the Worldwatch Institute, an environmental think-tank.

Although there have always been more bikes than cars, 20 years ago it was universally assumed that the automobile would surpass the bike as the preferred vehicle. Between 1950 and 1969, world car output rose from 8m vehicles to 23m.

Car companies prepared for large increases in production in North America, Europe and the developing countries. But oil price hikes and mushrooming car prices hit the car industry hard. Auto output in 1991 – 35m – was only slightly greater than the 31m produced in 1979.

Bicycle production, 25m in 1969, surged with the environmental movement and doubled by 1973. The economic reforms in China pushed demand for bikes ever higher. Production increased there from 7m in 1976 to 40m by 1987. Last year, world bicycle output was nearly 100m.

Lester Brown and Ed Ayres, authors of the study, urge more investment in bike paths and improvement in bicycle accessories. Densely populated industrial countries, like Japan and the Netherlands, have pioneered bike-rail commuting arrangements. Japan has built vertical bicycle parking facilities three-four stories high.

Traffic congestion has led to growing use of bikes in both developing and industrialised nations. Messenger services use bikes through urban streets, as do fast-food companies. In the US, more than 100 police departments have bicycle squads. City officials, doing routine inspections or supervising public services, use bikes to reduce costs.

"Historically, bicycling has suffered from unfriendly streets and has not benefited from public initiatives nearly to the extent it might have," the report said. "Where initiatives have occurred, bicycles have thrived."

Nancy Dunne

It is widely believed that Al Gore (l) will assume responsibility for the environment when he and Bill Clinton (r) take office

A brighter shade of green

George Graham asks whether the Clinton-Gore team can protect both US jobs and the environment

Over the long months of the US presidential campaign, voters and observers have been exposed to two sides of the environmental politics of Governor Bill Clinton.

On one side stands the governor of Arkansas, who has made enough of an effort to preserve the rivers and forests of his state to win the endorsement of a number of environmentalist groups, but whose record on the environment is by no means perfectly green – who has, in fact, consistently shown a tendency to compromise with industry over questions of pollution.

On the other stands the candidate who selected as his vice-presidential running mate Senator Al Gore of Tennessee, a leader in the Senate on environmental questions and the painter, in his bestselling book "Earth in the Balance," of an almost apocalyptic portrait of the consequences of global warming, the degradation of the environment and untamed population growth.

Now that Clinton is president-elect, due to take office in a little over two months, many are now wondering which side will dominate in his administration.

During the campaign, Clinton largely deferred on environmental questions to his partner.

Their Republican opponents had initially planned to concentrate on Arkansas's spotty environmental record and on the soiled waters of the White River, polluted by wastes from the chicken farms that are the state's economic base. Instead, they launched an attack on Gore as an environmental extremist.

The attack was led by Vice-president Dan Quayle, who helped sell a good many extra copies of his rival's book to those who rushed to check his slightly stretched claim, made in the televised vice-presidential debate, that page 304 of "Earth in the Balance" advocated a $100bn-a-year Global Marshall Plan to safeguard the environment in third world countries.

But President George Bush joined in with a will, dubbing Gore "the Ozone Man" in his regular speeches on the campaign stump. Central to the attack was the view that Gore, and by implication Clinton, were willing to sacrifice jobs – be they in the timber industry of the Pacific northwest, by protecting the habitat of the northern spotted owl, or in the automotive plants of Michigan and Ohio, by demanding that carmakers increase the average fuel efficiency of their cars from 27.5 to 40 miles per gallon – in the interests of the environment.

Clinton, during his years in office, often compromised on environmental issues in favour of jobs. Some Arkansas observers claim that one of the formative events of his political life was a battle against Georgia-Pacific, a big forestry products company, in his first term as governor.

The fight helped cost him re-election, and even his allies say that when he won back the governorship two years later, he was a chastened and more pragmatic politician.

And while Arkansas's environmental record is clearly not all bad, Clinton took the opportunity of Earth Day in April to promise a greener approach in the future.

"I've made the choice from time to time for jobs, because my state was a poor one, without either enough jobs or enough federal help to clean up the environment. But over the years, as I have worked in this area, I have come to learn something that Bush and his advisers still don't understand: I've come to reject the false choice between economic growth and environmental protection," he said.

It is widely believed that Gore, when he takes over the vice-presidency, will assume general responsibility in the environmental area, but he has muted some of his views during the campaign; indeed, he himself has in the past put jobs before the environment, voting against the controversial preservation of the snail darter, a small fish threatened by dam construction in his native Tennessee.

Even a vice-president with less involvement in environmental policy would help bring about a considerable change in the US, for Quayle has taken an activist approach towards blocking and delaying the implementation of new environmental regulations, especially those implementing the Clean Air Act, that he believes damage US business competitivity.

If the new Clinton administration were simply to leave the Environmental Protection Agency under the command of William Reilly, who was appointed by Bush, the result would probably be a much more constrictive set of regulations than Quayle has allowed through.

Among those who have been mentioned as possible replacements for Reilly are Madeline Kunin, former governor of Vermont, Carol Browner, Florida's environment secretary, Thomas Jorling, New York's conservation commissioner, and Fred Krupp, director of the Environmental Defence Fund.

The first effects of the 1990 Clean Air Act became evident last week when new, cleaner-burning petrol, blended with oxygenates, became compulsory in 39 metropolitan areas, in an effort to reduce levels of carbon monoxide, especially concentrated in the winter. The new blended fuels cost more per gallon, and yield lower mileage.

The EPA published a flurry of new clean air regulations in the week before the election, covering nitrogen oxide emissions from coal-burning utilities, pollutants from steel industry coke ovens, tests on car exhausts and an innovative system to allow companies to sell their pollution rights if they make faster progress in cutting their emissions than the law requires.

Many of these regulations are still subject to public comment and alteration, leaving time and leeway for a Clinton administration to make its own amendments. But even under the supervision of Gore, few expect the new administration to seek a draconian toughening of the requirements, at a time when its top priority is to put into effect some kind of job creation package.

Water resources drying up in EC

By Bronwen Maddox

Economic growth in the European Community will become constrained or made much more expensive by lack of fresh water, according to a report* released today by the European Commission.

The shortages will be most pronounced in Mediterranean countries, but industrial and agricultural contamination of ground water could also lead to constraints in northern European countries if present patterns of use are maintained, it concludes.

The study of water resources, prepared for the European Commission's Science, Research and Development directorate by Ecotec, a Birmingham-based consultancy, gets its first public airing at a conference on EC industrial and environmental policy today in Manchester. Its usefulness is that it focuses on the quantity of water in Europe, where recent debate – and EC directives – has focused on its quality. It provides a reminder that EC countries will have to invest considerable sums just to keep water flowing, before they begin to foot the bill for complying with new directives.

Lack of fresh water – water from the natural water system of lakes, rivers and aquifers (water-bearing rocks or soil) – tends to be a local problem. "Each year an average of more than 7,000 cubic metres per capita enters the rivers and aquifers. It does not always arrive where and when it is needed," says the report.

Even when it does, between 15 per cent and 30 per cent of it leaks from delivery pipes or evaporates, according to the study. Around 50 per cent of water taken for irrigation is lost before it reaches the field. The result is that the average cost of water in Europe – Ecu 0.66 per cubic metre – is between two and three times the costs in the US and Japan. European costs could rise further as countries comply to a greater degree with EC directives.

The report identifies two groups of regions at risk. Metropolitan France, Belgium, Netherlands and south-eastern England could face shortages because of high population density and industrial development despite considerable rainfall and plentiful large rivers. Portugal, southern and central Spain and Italy, Greece and the Mediterranean islands might also have problems because rainfall is low at the times of year when the demand from agriculture and tourism is high.

The main weakness of the report is the same one that affects most studies of water standards in Europe: the absence of reliable and comprehensive data on pollution levels. The European Commission has so far not collated data on whether its member countries are complying with its directive. Instead, the report offers anecdotal evidence to argue that pollution from pesticides and nitrates is a problem in all EC countries.

It argues too that water shortages will worsen as supplies are already scarcest in the regions where demand for water is growing fastest, particularly in Spain and Portugal.

The inevitable, costly solution for those areas facing future shortages is investment in technology to reduce leakages, reuse industrial water and clean waste-water.

The authors of the report believe the need for this investment offers a huge opportunity for water treatment companies.

Research and Technological Development for the Supply and Use of Freshwater Resources. Ref no. EUR 14723, EC Office of Publications, Luxembourg.

PERKS: Rising medical costs mean companies are taking a second look at private health insurance. Continuing a series, **Alan Pike** looks at how policies are changing

Time for a check-up

Bupa can benefit almost every body in business, declares a newspaper advertisement currently being run by Britain's largest private health care group.

It depicts employees of a restaurant, publisher and construction, transport, marine engineering and computer companies whose employers provide private health benefits. All look in excellent health. This must be a terrific relief to Bupa, because Britain's medical insurers are struggling to control claims.

Rising private medical costs are a problem not only for health insurers but, of course, for the customers who feel the effects in higher premiums. Often these customers are not individuals but companies; many began offering private medical insurance as a benefit to employees in far better business circumstances than they now find themselves.

Insurers, aware that cost pressures in the recession are inevitably leading to companies reconsidering every item of non-essential expenditure, are stepping up efforts to project private health provision as an important ingredient in all-round business efficiency, rather than a fringe perk. The Bupa advertising campaign stresses this, declaring that healthier and better-motivated staff equate to "fewer days lost through illness, easier work scheduling and increased profitability".

Laing & Buisson, the healthcare publisher and research organisation, produced figures last month showing that there were 3.2m subscribers to medical insurance in December 1991, in schemes covering 6.5m people or 11.4 per cent of the population. This was a drop of 0.6 per cent on the previous year – a tiny fall but the first-ever since the 1970s.

The figures give the private health sector grounds for hoping that, if cost containment can be improved, it may not lose too many corporate subscribers as a result of the recession

The number of these subscribers in company schemes – 1.9m at December 1991 – fell by 3 per cent over the same period. In view of the extent of the recession, however, this drop is again a modest one and can be explained by redundancies and company closures, rather than a more widespread abandonment of health provision by employers.

The figures give the private health sector grounds for hoping that, if cost containment can be improved, it may not lose too many corporate subscribers as a result of the recession.

Company-provided schemes – some completely funded by employers, others with a contribution from staff – were the fastest growing sector of private medical insurance throughout the 1980s. They are also the most competitive sector of the market – companies are more likely than private subscribers to shop around and change insurers, a process being increased by a rising number of brokers and other specialists entering the market.

The conventional image of health insurance as a benefit for senior staff remains broadly accurate. Although some companies offer cover to all employees, surveys show that private health insurance subscribers are still overwhelmingly in the professional and managerial categories.

The tendency for companies to shop around and change insurers has kept the corporate sector of health insurance more price competitive than the individual one. Managers are also taking far more interest in what they get for their money.

One effect of this can be to trade down to more restrictive policies. Another – which is being encouraged by the insurers – is for corporate clients to become involved in managed care arrangements.

Private Patients Plan (PPP), the second-biggest insurer, has pioneered this approach with Pilkington, in its medical insurance scheme for 1,600 managers and their families. Under managed care schemes, treatment takes place whenever possible at a preferred-provider hospital – in the Pilkington case the Fairfield in St Helens.

This guarantees the hospital a substantial volume of work, and gives the insurer managing the scheme greater bargaining power over arrangements and charges. It can, for example, ensure that, whenever possible, treatment is carried out by cost-effective day surgery techniques rather than involving unnecessary in-patient stays.

"The key to managed care is that we receive pre-notification that a patient requires treatment," says Wendy Brewer, manager of PPP's managed care programmes. "This means we are able to plan in advance to ensure that treatment is provided in the most efficient way. It is the reverse of a conventional insurance claim, where we have to start complaining after the patient has left hospital if we are unhappy."

Brewer says costs have gone down in each of the two years that the Pilkington scheme, introduced in 1990, has operated. But a similar number of cases have been treated and the company's managers are covered for the same list of conditions as before.

Growth in UK private health insurance

Private medical fees are currently under investigation by the Monopolies and Mergers Commission. Brewer says the attitude of doctors at St Helen's towards managed care has moved from one of initial suspicion to describing the arrangements as "not unreasonable".

With the need to control costs the most important issue facing the private medical sector, schemes of this sort are likely to grow. A consequence is that managers in companies will need to take an increasingly active interest in the precise health cover they provide, choosing from a growing range of options.

Insurance is not, however, the only health provision that a company can make for its employees. Some offer a range of occupational health and monitoring facilities: workplace health promotion campaigns are likely to become a more familiar feature with the introduction of the government's Health of the Nation strategy to raise national health standards.

The Coronary Prevention Group is this month launching a big Heart and Workplace Health Programme for 10,000 London Underground employees at all levels of seniority. They will undergo a 45-minute series of tests, leading to individual counselling and advice on healthy eating, smoking, exercise and coping with stress.

Employers introducing this type of programme are undoubtedly serving the national interest – Britain, with one of the world's worst coronary heart attack death rates, lost more than 51m working days through heart disease last year.

Health promotion specialists say such schemes can also serve companies' interests. While medical insurance offers cover that many employees never use, high-profile health promotion exercises involving an entire workforce have immediate, visible impact and can bring swift benefits in goodwill and improved morale.

Safety network spreads like fire

By Chris Tighe

On a frosty, damp November night, a tanker loaded with flammable chemicals slews off the road and bursts into flames at Seal Sands, the chemical and petrochemical industry complex at the mouth of the River Tees.

A gatehouse attendant at one of the sites edging the road grabs the telephone and rings Cleveland county fire brigade headquarters at Hartlepool to raise the alarm.

At one time, this would have been the prelude to a long, laborious ring-around, as the emergency services tried to alert the various companies which make Teesside the UK's largest concentration of hazardous industry.

Engaged phone lines, problems in finding the right person to inform and possible misunderstandings of technical information were all potential pitfalls in communicating vitally important messages to staff responsible for safety.

But now, thanks to a personal computer and telex network launched yesterday, information and advice on accidents and emissions can be relayed within a maximum of two minutes, and often within seconds, to Teesside sites handling hazardous materials. They, in turn, can relay information back as fast, using the same system, to fire brigade HQ, which will then disseminate it via the network to other hazard sites, including chemical and petrochemical manufacturers and storage companies and Hartlepool nuclear power station.

The system includes information on wind speed, the risks posed by the accident or emission and details of substances released, including the name by which they are known on individual sites and their standard categorisation.

Designed to be easy to use, it is intended to maximise speed and scope of information, while minimising the ambiguity and timewasting which, in the worst case, could cause serious injury or even loss of life.

The new £125,000 Cleveland Chemical Alarm System was designed by British Telecommunications and paid for by 14 hazard-related companies on the network, which also includes Cleveland Police.

The 14 include ICI, Tioxide, Phillips Petroleum, British Rail and BASF. Other Teesside companies have expressed interest in joining the network, which can be easily expanded.

The new system replaces a less sophisticated telex and printer network introduced by Cleveland fire brigade and Teesside industry in 1981. The old network, although a vast improvement on the ring-around technique, was much slower, and sent information only in one direction, from the fire brigade to industry.

BT claims the new network, which combines PCs, fast, dedicated telex lines and specially-written software, to be a world first and hopes to market it for other similar petrochemical complexes.

Life's little headaches

By Dr Michael McGannon

HEALTH CHECK

If life often seems to be the sort of headache which literally translates itself into a pain in the head, the first step is to identify whether you are being plagued by migraine, cluster or tension headaches.

For migraine sufferers, 60-70 per cent of whom are women and many of whom have inherited their condition, onset is normally between the ages of 13 and 40. Intense, one-sided attacks of throbbing pain, associated with nausea, vomiting, aversion to light and lack of appetite, can last anywhere from four to 24 hours.

The cause of migraine is vascular – in other words, it is not caused by the brain itself but by dilation of the cerebral vessels. Unlike other kinds of headache, migraines generally worsen with physical exercise.

Before resorting to drugs you may want to try eliminating cured cheeses and red wine from your diet – effective in up to 30 per cent of cases. You may also want to try limiting your intake of chocolate, alcohol, highly processed foods, as well as foods containing monosodium glutamate. Other measures might include discontinuing the Pill, giving up smoking and using stress management techniques.

The second type, cluster headaches, may be made up of a series of headaches over weeks or months. Typically, the sufferer may experience very severe headaches, usually localised around or behind the eye, lasting between 20 minutes and three hours. They nearly always occur on the same side of the head within a series, and their cause, like migraine, is thought to be of vascular origin. Up to 10 per cent of cluster headache sufferers develop a chronic variety of attacks which endure for a year or more. Because of the short duration of cluster headaches, standard analgesics may not be suitable.

The third variety is the tension headache. During an episode of acute stress, when adrenalin is percolating through your system, severe and prolonged muscle contraction creates a band-like pressure sensation, like wearing a hat that is too small. Associated symptoms may include irritability, decreased sex drive and cravings for sweets. Solution for this variety include: exercise, biofeedback, psychotherapy, nutritional purification and relaxation.

The author is the medical director of the Insead Business Health course.

CONSTRUCTION CONTRACTS

£15m work awarded to Wiltshier

WILTSHIER CONSTRUCTION GROUP has recently won new business orders worth a total of over £15m.

Unusually almost every region of England and Scotland is evenly represented in the list which ranges from a new sawmill and office construction in Surrey to a major local authority school refurbishment programme in Glasgow.

Also included in this broad spread of projects valued at between £1m and £2m and now underway, is a clinical trials supplies facility for the Wellcome Group at Dartford in Kent; and upgrading and modernisation of an unemployment benefit office in east London; and an extension to the Longhirst Management Training Centre at Morpeth.

Housing students

Over 200 student flats in Salford are included in £7.4m worth of construction work won by LAING NORTH WEST.

University College Salford has awarded a £5m contract for the conversion of two blocks of former council flats into student accommodation. The 15-storey blocks will be altered and refurbished both internally and externally.

Work includes concrete repairs, new windows and facing brickwork plus partitions, services and finishes. Some 224 flats will be provided together with social areas and laundry facilities.

The blocks, known as John Colman and Eddie Lester Courts, are located close to the college campus. Work is due for completion at the end of June 1993.

Lancaster University has awarded Laing a £2.2m contract to construct a two-storey teaching block within the campus. The project is scheduled for completion at the end of August 1993.

Water treatment

A design and construction contract for five water treatment plants in Argyll, with a total value of £10m, has been awarded to BARR CONSTRUCTION. The project, being carried out on behalf of Strathclyde Water, involves locations at Rothesay, Tobermory, Islay, Inveraray and Tarbert.

Office development in Japan

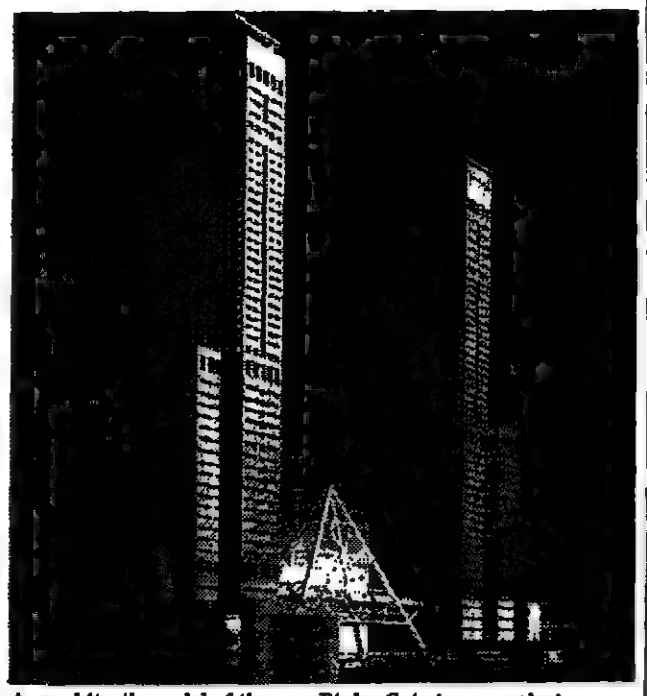
SCHAL ASSOCIATES INC has started work on its eighth project in Japan, the 56-storey Rinku Gate North Tower, on the coastline of Osaka Bay.

Costing US$439m (£290.7m), the 1.2m sq ft office tower will be ready for occupation in September 1996. The podium will be constructed in steel reinforced concrete and the tower itself will utilise a steel frame clad in granite panels and aluminium curtain walling.

The tower is planned as the focal point of Rinku Town, a new urban development being constructed on the coast at Osaka Bay, opposite the island site of the new Kansai International Airport, where Schal Associates is also constructing the control tower and administration building.

Construction of the tower is being undertaken by a joint venture team led by the Japanese contractor Obayashi. Schal Associates is the only foreign company in this team.

Founded in 1976, Schal Associates is a world leader in construction services and currently one of Chicago's largest construction services companies. It is also a subsidiary of the New York-based Bovis Inc, the US construction arm of the P&O Group.



An architect's model of the new Rinku Gate tower project

Performing arts school in Liverpool

EC HARRIS has been made project manager for two City Challenge schemes in Liverpool worth £22m.

The firm has been appointed client representative for the Liverpool Institute for Performing Arts, one of the most high profile City Challenge projects, which has the backing of Paul McCartney among others.

The £15m scheme is based around the redevelopment of Paul McCartney's old school, which is 165 years old and has been empty for seven years.

The school will be devoted towards training for the entertainment industry which will will include those who wish to specialise as performers. It will accommodate 500 full time students and 2,000 part time students and is due to open in September 1995.

Architects are being selected through a competition and will be appointed shortly.

EC Harris has also been appointed project manager by the National Museums & Galleries on Merseyside for the £7m refurbishment of the 60,000 sq ft Grade II listed Midland Goods Depot railway warehouse.

The building will be converted into a conservation centre for conserving art gallery and museum artifacts. It will also contain an area for public display and interpretation of conservation work.

The refurbishment scheme will go out to tender in January and the contractor is expected to be appointed in February.

Hospital projects won by LG Mouchel

LG MOUCHEL & PARTNERS has been appointed to engineer two large hospitals in the south of England.

Mouchel's Bath office has been appointed by the West Dorset General Hospital's NHS Trust to undertake the civil and structural engineering on the second phase of the Dorchester General Hospital.

Phase 2 of the hospital development will provide 350 additional beds in 15 wards and includes five operating theatres and facilities for other specialist functions. The design of the £26.6m development started in July and invitations to tender will be sent out in April 1994. Construction is due to begin in November 1994 and should be completed by October 1997.

South West Thames Regional Health Authority has appointed Baker Martin Mouchel, the firm's Southampton office, as the structural engineer to develop and refurbish St Richards Hospital in Chichester.

The hospital has grown up over the last 40 years and the intention is that the present facilities should be rationalised and that a sound basis should be provided for future development of the site.

The appointment will therefore involve major refurbishment of some of the buildings, the building of extensions to others and the construction of new facilities. Roads and car parking facilities on site will be upgraded and extended.

The project will be divided into a number of phases, the second of which is the construction of a new nucleus hospital. The whole development is expected to be completed in July 1997 at a cost of £28m.

PEOPLE

Further erosion of Maxwell era

Murdoch MacLennan, managing director of Associated Newspapers' main printing operation, Harmsworth Quays, is to be the new managing director of the Scottish Daily Record and Sunday Mail.

Apart from running the Scottish titles of Mirror Group Newspapers, MacLennan, who is 43, will also be responsible for all MGN's printing operations, and was yesterday appointed to the main board.

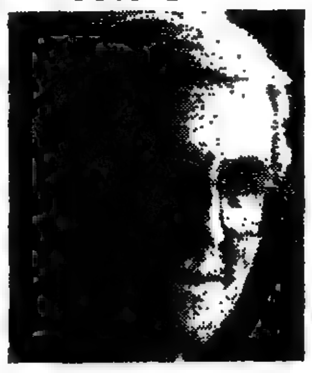
This appointment heralds the departure of Vic Horwood after 30 years with the Mirror group. Two weeks ago Horwood was replaced as chief executive of MGN by David Montgomery, former editor of Today, but remained chairman of the Scottish Daily Record.

His departure further reduces the number of seniot Mirror executives surviving from Robert Maxwell era. Last week Alan Stephens resigned from his position as company secretary. In June, Ernest Burrington stepped down as MGN chairman and was replaced by Sir Robert Clark.

Speaking of Horwood's devotion to MGN, Sir Robert said: "His special contribution since Maxwell's death has helped MGN over a traumatic period."

Mirror Group Newspapers also announced the appointment of James McColgan, who recently retired as chief executive of Blue Circle Industries, as a non-executive director.

Non-executive directors



■ Michael Orr (above), chairman of Molins and former md of Merrill Lynch Europe, at GRANADA GROUP.
■ Gerry Robinson, chief executive of Granada Group, at MB-CARADON.
■ Peter Maydon, a director of Reckitt & Colman, at ASHLEY GROUP.
■ Albert Hargreaves as deputy chairman of APOLLO METALS.
■ Wallace Clapperton at TR PACIFIC INVESTMENT TRUST.
■ John Morrell at DRAYTON ASIA TRUST; Chi Chent Huang has resigned.
■ Richard Miles, former md of STEETLEY GROUP, at Bucknall Group.
■ John Hunter, chairman of SmithKline Beecham Consumer Brands, at WACE GROUP.
■ Gordon Edington, a director of BAA, and David McCall, chief executive of Anglia Television, at HODDER & STOUGHTON HOLDINGS.
■ Don Reid as chairman and Vincent Daly, chairman of LM Ericsson in Ireland, at CAMBRIDGE GROUP.
■ James White, chairman of Ashley Group, at PERRY GROUP.
■ Steven Abbott has been appointed director of R&D at AUTOTYPE INTERNATIONAL, a Norcros subsidiary; he moves from Imagedata.
■ First Leisure, which runs attractions ranging from the Blackpool Tower to ten-pin bowling centres, snooker clubs and discotheques, has appointed a marketing director with a background in advertising, video rental and music sales.

Mark Nicholls, 35, was previously UK marketing and programming director at Blockbuster, the biggest US video rental company. Blockbuster this year became the biggest video rental company in the UK when it bought Cityvision, operators of the Ritz chain. Earlier jobs included head of marketing at Virgin Retail, and seven years in advertising, where clients included Forte, Citroen, Mitsubishi, McDonald's and Greenpeace.

John Conlan, First Leisure's chief executive, said Nicholls' Virgin and Blockbuster experience would stand him in good stead: "We are essentially in the business of retailing entertainment."

Draper bows out of Virgin Music

Simon Draper, Richard Branson's second cousin by marriage and the musical ears of the Virgin Music Group, is leaving to pursue other interests – chiefly classic car collecting and historic motor racing.

"I knew the day it was sold that I would go. I have never worked for anyone else," says 42-year-old Draper, whose discovery of Mike Oldfield's Tubular Bells put the Virgin label on the map. Earlier this year, Thorn EMI paid £510m for the group, which in 20 years grew into the world's fifth largest record company.

Draper says that, while he ran the company for a decade until 1988, he had gradually delegated more of the day-to-day operations to Ken Berry, though he had retained the title of chairman until the takeover.

Indeed, he claims to have been keener on selling out than was his cousin. "I become disenchanted with the business two years ago." Since he arrived from university in South Africa in 1970 to join Virgin part-time, Draper says he had seen the whole cycle of a company's growth and that "enough was enough".

After the Thorn EMI deal, he had "chosen" the title of principal A&R adviser and stayed on because he was "genuinely not sure" what would happen; he will now leave when Thorn will let him go.

For the moment he will indulge his love of classic cars, and race with his "great friend" Pink Floyd drummer Nick Mason. He says he fails to be inspired by a lot of today's music, but that he may in time make a comeback.

Jim Tilson joins Arcon

Professor/Senator Richard Conroy, academic, politician, entrepreneur and the man in the centre of an unprecedented Irish corporate saga this year, is giving up more of his power at the natural resources company he founded.

Arcon International Resources, which until recently was called Conroy Petroleum, has recruited Jim Tilson as chief operating officer. He will join Arcon in the new year and has been set the task of bringing the company's zinc-lead project at Galmoy, County Kilkenny, into development. Arcon hopes it will be Ireland's first big base metals mine in 20 years' time.

Tilson, who is in his mid-50s, is a Northern Irishman with a wealth of international mining experience. Conroy says he was chosen partly because of his experience in managing the start-up of a Falconbridge nickel mine in Manitoba, Canada.

In his student days at the Camborne School of Mines, Tilson was the winner of the mining prize. Since early 1990 he has been manager, production and technical services, to Saudi Arabia's Ministry of Petroleum and Mineral Resources, where he has been responsible for a substantial increase in gold production.

At Arcon he will join a number of new directors, including Tony O'Reilly junior, 25, recently brought back from the US to become the company's executive director – planning and corporate development.

All this follows the bizarre events which saw Conroy and other directors thrown off the board after he had upset two big shareholders by buying one of Tony O'Reilly senior's oil companies. O'Reilly, Ireland's best-known businessman, subsequently increased his stake to take his shareholding in Arcon to 24.45 per cent and Conroy was reinstated.

Observers suggest that O'Reilly is hobbling Conroy, who previously ran the company in autocratic style, by installing an executive committee to which Conroy, still chairman and chief executive, has to report. But Conroy laughs this off. "As the company grows we need a professional structure and we are putting in some strong people. I'm very happy with it."

Television/Christopher Dunkley

Troubleshooting and childminding

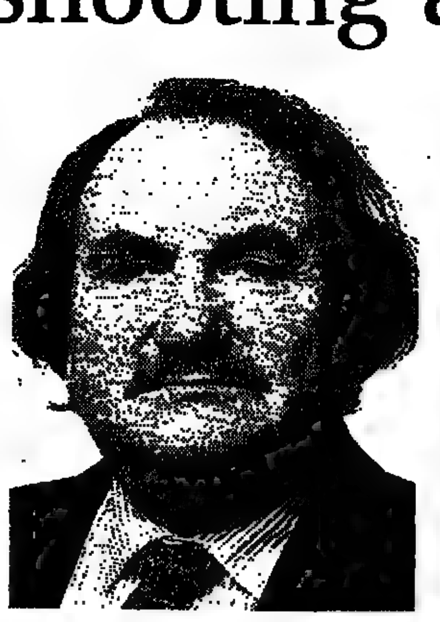
There is more than meets the eye to BBC2's second series of *Troubleshooter* in which Sir John Harvey-Jones, former head tank for British business. This is saying quite a lot since a good deal smacks you right in the eye. Last night in the opening programme of the new batch of six, Sir John went back to the companies he visited in his first series to see what had happened since. It seems that Morgan cars, which most viewers remember best, did not relish another meeting, so Sir John was reduced to a chat with one of the distributors. This suggested that little had changed: production has risen 10 per cent (now they are building 11 cars a week!) but the customer waiting list is still years.

This item, like those involving the former boss of Tri-ang toys, the family which owns Copella apple juice (to Sir John's horror they have bought it back), and the Churchill pottery firm, suggested that British industrialists may lack the killer instinct when it comes to international business. Over and over again we heard about people being happy, enjoying themselves, trying to maintain contentment among the workforce. Plainly Sir John believes that in the modern world the British must compete and succeed internationally or die. Yet among many of those he visits the unspoken sub-text – and this is where there is more than meets the eye, or ear, since no one says this out loud – seems to be that if the price of international success is for the British to acquire the national characteristics of the Germans or the Japanese, perhaps we should forget it.

What is so remarkable about the *Troubleshooter* programmes is that they are still out on their own. Given the significance attached to the recession, the Gatt talks, unemployment, the EC and so on, you might have expected television to be awash with programmes about the nuts and bolts of industry. Instead *Troubleshooter* is virtually unique. Its great strength is that although the subject matter is factual and serious the programmes, thanks largely to the attractive personality of Sir John, are not only informative but highly entertaining. Next week's, about the Double 2 shirt business, is an eye-opener: the company appears to have a fortune tied up in bolts of cloth, and to make countless designs. Why, then, are the British incapable of matching American outfitters by offering three sleeve lengths in every collar size, so that shirts actually fit? Annoyingly Sir John never asks.

★

Yet another programme, this time C4's *Dispatches*, has been proselytising the "causal connection" theory which assumes that because rapists and child sex abusers often look at magazines and videos depicting pornographic violence, the magazines and videos are *causing* the violence. It would not concern me greatly if they



John Harvey-Jones: what price international success?

removed every example of violent pornography from the shelves tomorrow since I find such images chilling and unpleasant. But the notion that these things are "causing" rapists to rape and abusers to abuse seems batty, given mankind's long history of violence before the invention of the glossy magazine and the videocassette.

Cordon bleu cooks often have lots of cookery books on their shelves but you would not attribute their enthusiasm to the presence of the books; the presence of the books obviously results from the enthusiasm. Ban the books and the cooks would still cook. Engine drivers read magazines about trains but would you conclude that the magazines caused the choice of career, or that the job and the possession of the magazines stem from the same predisposition? Millions of people buy train magazines and never drive a train, just as millions buy violent pornography and never rape or abuse. Of course those predisposed to rape or abuse will probably enjoy looking at pictures of what they like, but that is not a causal connection.

The misconception is important because it sends programmes such as *Dispatches* up blind alleys. So long as programmes and viewers are worrying about the outward symbol – the magazine or videocassette – they are overlooking the true cause inside men's heads, or within our social arrangements. And how do I explain the success of commercials if magazines and videos don't "sell" pornographic violence? By the same argument: all successful commercials appeal to a predisposition, whether to have clean clothes or to get drunk. Would you buy a detergent which promised to make your clothes dirty, however brilliant the commercial?

★

There is a decided tendency to apologise for liking *The Borrowers*, BBC1's new Sunday teatime serial. We are told that people do not watch television in family groups any more, that this classic children's story cannot possibly appeal to a generation raised on Nintendo and *The Simpsons*, that it is all terribly twee and middle class and old fashioned, that the sheer style of the thing cannot compete in a world of yoof graphics and house music, that children no longer like being told stories, but only playing computer games. Twaddle. Eat my shorts. *The Borrowers* is well wicked. Anybody of any age who has a modicum of imagination and a taste for narrative will adore it. Thanks to their quality of participation, computer games may be addictive, but they are also mindless.

The Borrowers does what good fiction has always done: lifts you out of yourself and transports you to another world, this time under the floorboards of a country house where the seven-inch people live. As with any good fiction you have to do some of the work, and that makes it all the more enjoyable. Traditional entertainments such as pantomime, detective stories and opera are more popular than ever, not less: why should Sunday teatime serials be any different? Since this one has Ian Holm and Penelope Wilton as the Borrower parents you would have to be mad to miss it.

★

News programmes get so set in their ways that the tiniest change looks, from the inside, like violent revolution. But what ITN considers "the biggest revamp in the history of *News At 10*" may look like pretty small beer to the viewer. The camera angle on Big Ben at the beginning is different, there are lots of monitors behind the news reader's head, and Trevor McDonald presents the first half on his own. Gosh. The really significant change on Monday was the introduction of current affairs in the second half in place of news. Poor Julia Somerville, reduced to a "Hand-you-over" role, announced a report on negative value mortgages and handed us over to Julian Manyon, late of *This Week*, who then presented a mini version of *This Week* on the hard hit of Huntingdon. With the threatened disappearance of current affairs in peak hours once the new ITV franchises come into effect in January, this slot may begin to look very valuable, but it is a questionable idea for those who prefer their news programmes full of news. And what is news? In any daily medium it should surely be the difference between the world yesterday and the world today.

Theatre

Zeffirelli's 'Six Characters'

Franco Zeffirelli's production of Pirandello's *Six Characters in Search of an Author* is on a grand scale, which is how it should be. There is a huge background of squares and rectangles taken from Mondrian, at times strikingly illuminated. The music, while never obtrusive, is frequent and varied. Above all, Zeffirelli has more than fulfilled Pirandello's direction to include a lot of extras in the cast of actors. They add to the excitability when everybody talks at once; they enhance the stillness when almost everyone is quiet. There are some marvellous stage groupings.

None of which is to suggest that the production puts style ahead of substance. *Six Characters* is far too good a play for that to be possible. Rather the infusion of the style makes the play even better. I have always been a Pirandello advocate. This performance should demonstrate beyond doubt that *Six Characters* is one of the 20th-century masterpieces.

Zeffirelli has made one notable change from the original text. Instead of having the actors initially rehearsing one Pirandello's earlier plays, *The Rules of the Game*, he has substituted his last, *The Giants of the Mountain*, by which time the master was past his best. The switch probably means more to an Italian than to a British audience. It doesn't seem to me to matter much either way.

For the rest, however, this is the essential Pirandello who raises questions about illusion and reality, the difference between real life and what happens on the stage and where the two shade into each other. Where *Six Characters* excels is in drawing in the audience. The producer of the play in rehearsal, and of the play in embryo, often directs from the front of the stalls. Producer, actors and the family of six characters who come in from the cold to tell their own story frequently stop to consult and argue with each other. *Six Characters* is an inquiry into the nature, and limits, of theatre.

The brilliance of the team playing in Zeffirelli's production by no means prevents star performances. Benedetta Buccellato as the step-daughter is unforgettable. She is not conventionally beautiful, but there is a style and pride to her presence. Although she can suddenly flash a leg, drop a garment, or let fly a torrent of abuse, she is sometimes even more impressive when completely still.

Giorgia O'Brien has only about five minutes on stage as the dressmaker and brothelkeeper, but she uses them to perfection, never trying to do too much. Sergio Basile as the producer who is present throughout demonstrates a superb Italian seriousness: a readiness to pick up what is new, learn from it and refine it. That is the essence of the Zeffirelli style.

Such open-mindedness extends to the entire cast. Some of the best scenes are when the actors are watching the characters and acknowledging that the outsiders have something to teach. The scene where the father (Enrico Maria Salerno) goes to the brothel and begins the formalities with the girl who turns out to be his step-daughter is a dramatic gem. So is the way it is then redone by the actors. Note the change in the accompanying music.

One complaint. The Italians seem to regard an interval as an excuse for a siesta. It lasted a good 30 minutes. The production is sponsored by Olivetti UK Ltd.

Malcolm Rutherford

Lyttelton, until Saturday

Alastair Muir

Unforgettable: Benedetta Buccellato

A Month in the Country

Why Turgenev's *A Month in the Country* is not given here more often is a mystery. Frederick Ashton's one-act ballet version has been a staple of Covent Garden repertory since 1936, and deservedly so – but Turgenev's five-act original is more marvellous yet. We have seen Lynn Seymour, Natalia Makarova, Antoinette Sibley, Altynai Asylmuratova and others dance Natalia Petrovna – but why haven't Vanessa Redgrave or Maggie Smith acted her? Natalia is a sophisticated 29-year-old wife who discovers love for the first time in the person of her son's tutor, Beliaev, a 21-year-old student. She is a quasi-comic Phaedra – torn between duty and erotic impulse, twice caught in a compromising position with the wrong man.

This "wrong man" – her 30-year-old devoted admirer, Rakitin – is the play's most original character of all, an intelligent, honourable but ultimately forceless man who embodies the effete chivalry of the old gentry. The many conflicting loves and affections are interwoven with an acute social sense. Isaiah Berlin has written that the play "seems to me more radical in tone, to contain more social protest, than any play by Ostrovsky or Chekhov, for all the explicit social content of their dramatic works." And the plot is surrounded by a wealth of naturalistic detail that reflects Turgenev's mastery of fiction and places *A Month in the Country* between Chekhov and Balzac.

The new Watford staging, directed by John Dove, rattles through the play with great ease. Few of its deeper psychological and social undercurrents become apparent; several of the pointers to characterisation in the text have not yet been realised. This is not a staging that brings new light on the play and too much has been cut or surpressed to ensure that it lasts just two hours and a half. Yet it proceeds so fluently that it holds its audience. And its rapid fluctuation of mood and emotion is absorbing.

Emily Morgan is a febrile and volatile Natalia who really does seem 29 years old. There is more constant conflict within the role than she yet shows; she does not catch the qualities of laziness, basic good sense or sophistication that the play's characters credit her with. But she is always so natural in all she does do that you hang gratefully on her every line. A pity that John McMurray – though his three sets are simple and elegant – has attired her in near-dowdy costumes. Jonathan Coy, though too old to convince as a 30-year-old, catches the futility of Rakitin; but not his exquisite irony, or the way his silence should dominate the final interview with Natalia's husband. As the doctor, Shpigelsky – the play's third great role – Philip Witchurch has the right unconventional cynicism (though without the brusque joviality with which, in 1975-76, Timothy West made this character so astonishing).

The most complete performance is that of Kate Byers as Vera. She hasn't yet caught all the despair Vera feels on resigning Beliaev, she is wonderfully artless and transparent; and the way she suddenly grows up is both startling and convincing. Joe Duttine is ideally fresh and simple as Beliaev and the way that David Sibley underlines Islayev's jealousy is the most original feature of this staging.

Alastair Macaulay

At the Palace Theatre, Watford until November 28

Messiaen's final 'Illuminations'

Max Loppert attends this posthumous premiere by the New York Philharmonic

The first three performances of Olivier Messiaen's *Eclairs sur l'au-delà* ... were given last weekend, on three successive evenings. They formed the first big "special event" on the New York Philharmonic's 1992-93 schedule, which has as its purpose a season-long celebration of the orchestra's 150 years of existence.

The composer died last April, aged 83. The premiere was, therefore, posthumous – but it was not at all solemn. Instead, the occasion was gripping and exhilarating throughout its course, by turns awesome and exuberant in sound-quality and invention – continuously uplifting, indeed, even to a non-believer in the Catholic faith that directly inspired all of this composer's music.

Eleven movements and 70 minutes long, *Eclairs sur l'au-delà* ... was composed for a 128-strong orchestra, typically rich in percussion but untypically lacking the solo piano and ondes Martenot, those Messiaen hallmarks. The title can be translated as "Illuminations of the Beyond ..."; in the formidably copious and detailed programme notes written for the New York Philharmonic by Yvonne Loriod, the composer's widow and pianist-muse, the work is described as a "set of meditations on the Beyond ... In this work we find ... the inward peace of the mystic, the anticipation of his repose in the luminous tenderness of God".

Before conducting it, Zubin Mehta, the orchestra's immediate past music director (and instigator of the commission), told the audience of a letter from Messiaen in which there was explained something of his vision of the spiritual life after physical death, and of his conviction that he would finally achieve an "understanding of the invisible".

From all this it is clear that, having completed the work only last year, not long before his death, Messiaen consciously intended it as a "final statement". Anticipatory thoughts of death are inevitably connected with final thoughts of life; and musically the work seems to range across the entire span of Messiaen's compositional creativity.

All the preoccupations are there: primarily, bird-song captured in music as a celebration of faith; but also the chord-colours, the "architectural" approach to orchestral-writing and to formal construction, the devices of repetition, block-building and superimposition used to create the illusion of vast tracts of space and time suspended in sound; the oriental influences on rhythm and texture; the sudden rapturous sweetness of melody in which love, human as well as divine, is hymned (here in the fifth movement, "Demeurer dans l'Amour", for strings).

As this might suggest, *Eclairs sur l'au-delà* brings to mind a large number of previous Messiaen works – sometimes closely. In the already-mentioned fifth movement, the opera *St François* is invoked. In the seventh ("Les Sept Anges aux sept trompettes"), so are the mighty graded gong and tam-tam climaxes of *Et exspecto resurrectionem mortuorum*. The ninth movement, "Plusieurs Oiseaux des arbres de vie", displays its "many birds" (25 in all, from across the world) singing independently in woodwind voices above triangle trills, in an ecstatic whirl that gloriously recalls, and subtilises, almost every previous avian inspiration in the Messiaen orchestral canon.

This might suggest, in turn, that *Eclairs de l'au-delà* is a tapestry of self-quotation rather than an original composition. The effect is the converse, the impression rather of radiant self-renewal. Once again, the forging of a distinctively personal, coherent, and communicative musical language – a musical "whole world" – out of such disparate and (to this particular non-Catholic listener) often unsympathetic elements comes to seem one of our century's most monumental artistic achievements. There is newness: it lies in the final-statement economy that marks every note, that ordains the exact internal balance of parts, the pithy brevity of most of the movements, the luminous spareness of so much of the scoring.

I heard the first and second performances. Neither was ideal. Though New York has hosted its share of notable Messiaen events – *Des Canyons*, the previous orchestral work, had its premiere here, in 1974 – a degree of audience restlessness (particularly during the second performance) hinted at an absence of familiarity with the Messiaen sound and substance. The Avery Fisher Hall lacks the necessary acoustical resonance, and lends an unwelcome edge to wind sound. (The Albert Hall should prove ideal: is a Prom performance already planned?)

Mehta, though obviously a Messiaen devotee, had not rehearsed the score to a state of complete Messiaen virtuosity. Radiance was missing from the string tone, noble sonorousness from the brass; sections were not bound into cohesive movements – indeed, patches of untidy ensemble led one to wonder whether the players were still tethered at the stage of nervous beat-counting.

And withal, it was a privilege to be there. *Eclairs sur l'au-delà* ... seems in its totality to sum up everything that made Messiaen not just the dominant figure of French music in the 20th-century, but one of the original voices, the vital forces, of all 20th-century music.

Concerts sponsored in part by the Florence Gould Foundation

INTERNATIONAL ARTS GUIDE

■ BARCELONA

OPERA

Edita Gruberova stars in a new production of Anna Bolena at Gran Teatre del Liceu this month. Richard Bonynge conducts a staging by Giancarlo del Monaco. The next performances are on Fri and next Tues. Sat: Rockwell Blake sings opera arias with choral and orchestral accompaniment. Mon: Karita Mattila song recital (412 3532)

CONCERTS

James Loughran conducts the Barcelona City Orchestra at Palau de la Musica on Fri and Sat evening and Sun morning, with a programme including Mozart's Piano Concerto No 20 (Yuriy Martinov) and Vaughan Williams' Eighth Symphony. Next week's concerts are conducted by Alexander Gibson (268 1000)

■ COLOGNE

CONCERTS

Tonight in St Maria im Kapitol: Tallis Scholars, in music by Palestrina and others (216058). Tonight in Philharmonie: Evgeny Svetlanov conducts Russian State Symphony Orchestra in works by Borodin, Rakhmaninov and Tchaikovsky. Fri and Sat: Oleg Maisenberg plays Rakhmaninov's First Piano Concerto with Cologne Radio Symphony Orchestra. Sun morning, Mon and Tues: Eliahu Inbal conducts Gürzenich Orchestra in works by Ravel, Martinu and Berlioz. Sun evening: Pinchas Zukerman plays Bach. Nov 24: James Galway. Nov 29: Abbado conducts Berlin Philharmonic (2801)

OPERA

Marco Arturo Marelli's new production of Henze's Der Prinz von Homburg, can be seen tonight, Sat and next Wed at the Opernhaus. Tomorrow, Sun and next Fri: Entführung. Fri: Carmen with Kathleen Kuhlmann. Next Tues: ballet by Jochen Ulrich (221 8400)

■ COPENHAGEN

Royal Theatre 20.00 Four-part Balanchine evening, new production staged by Patricia Neary. Sat, Mon and next Wed: Der Rosenkavalier. Next Tues: Peter Maxwell Davies' ballet Caroline Mathilde, choreography by Flemming Flindt (3314 1002)

■ FRANKFURT

CONCERTS

Alte Oper Tonight: Milva. Tomorrow: Robert Cray Band and BB King. Fri: Chicago Sinfonietta plays Rossini, Mendelssohn, Prokofiev and Beethoven. Sat: James Galway plays Bach. Next Tues: Nash Ensemble plays Bartók, Ravel and Messiaen. Next Thurs and Fri: Pinchas Zukerman is soloist with Frankfurt Radio Symphony Orchestra. Next Fri in Mozart Saal: Dmitri Hvorostovsky. Nov 21: Evgeny Svetlanov conducts Rakhmaninov. Nov 22: Midori. Nov 26: Houston Symphony Orchestra. Dec 1: Abbado conducts Berlin Philharmonic (1340 400)

OPERA/DANCE

Opernhaus This month's repertory includes a new production of Die Fledermaus (tonight and next Thurs), Die Zauberflöte (tomorrow, Sun afternoon and next Wed) and William Forsythe's ballet The Loss of Small Detail (Sat, Mon and next Fri). Margaret Marshall sings Violetta in La traviata on Nov 21 and 29 (236061)

THEATRE

Schauspielhaus Tonight, Fri and Sat: Arthur Schnitzler's 1911 play Undiscovered Country. Tomorrow: The Merchant of Venice. Sun: Djuna Barnes' Antiphon (2123 7444)

English Theater Kaiserstrasse A new production of Sandy Wilson's The Boyfriend opens on Fri and runs daily except Mon till March 6 (2423 1620)

■ HAMBURG

Staatsoper Tonight and Mon: Neumeier production of Nutcracker. Tomorrow and next Wed: Don Carlo. Fri: Don Pasquale. Sat: Cosi fan tutte. Sun: Gerd Albrecht conducts Günter Krämer's new production of Die Walküre, with Gabriele Schnaut, Hartmut Welker and Kurt Moll. Next Tues evening and Wed afternoon (in St Michaelis Kirche): Peter Schneider conducts Brahms' German Requiem. Next Fri and Sun: Bob Wilson's production of Parsifal (351721)

Deutsches Schauspielhaus Tonight and Sat: Shaw's Heartbreak House. Tomorrow: Thomas Bernhard's play Die Macht der Gewohnheit. Fri: Maxim Gorki's Vassa Sheleznova. Next Wed: Death of a Salesman. Nov 23: Herbie Hancock pays tribute to Miles Davis (248713)

■ LEIPZIG

Opernhaus Tomorrow: Cosi fan tutte. Fri: Haydn's The Seasons, choreography by Uwe Scholz. Sat: Gubaidulina's ballet Medea-Landschaften, choreography by Arila Siegert. Sun: Krenek's opera Jonny spielt auf. Tues: Bartók/Schoenberg double-bill starring Kristine Ciesinski. Nov 22: new production of Werther (7168 273)

Gewandhaus Pinchas Zukerman, accompanied by Marc Neikrug, plays violin sonatas by Beethoven, Bach and Franck tonight at 20.00. Tomorrow: Lionel Hampton. Fri: Georgian Chamber Orchestra plays works by Mozart, Mendelssohn and Gershwin. Sun: MDR Symphony Orchestra, conducted by Isaac Karabtchevsky, plays works by Bartók, Chopin, Tchaikovsky and Rimsky-Korsakov. Next Tues: Jacques Loussier Trio. Next Wed morning: Mahler's Second Symphony with soloists Grace Bumbry and Helen Donath (7132 280)

■ LYON

- Jean Fournet conducts Orchestra National de Lyon at Auditorium Maurice Ravel tomorrow and Sat. The programme features Mendelssohn's Violin Concerto (Régis Pasquier) and symphonies by Landowski and Chausson. Next week: Mishiyoshi Inoué conducts Rossini and Brahms. Nov 26, 28: Emmanuel Krivine conducts Mahler's Fourth. Dec 7: Labeque Sisters (7860 3713)
- Lyon Opera Ballet presents choreographies by Ralph Lemon and Bill T Jones at Transbordeur, 1 bd de Stalingrad, daily except Mon Nov 17-25 (7828 0960)

■ NEW YORK

THEATRE

- Texts for Nothing: an adaptation of Samuel Beckett's short work of fiction. A New York Shakespeare Festival production. Till Nov 22 (Joseph Papp Public Theater, 425 Lafayette St, 598 7150)
- Anyone Can Whistle: a revival of Stephen Sondheim's 1964 musical. Till Nov 22 (47th Street Theatre, 304 West 47th St, 279 42(X))
- The World of Kurt Weill: Julietta Koka stars in this retrospective of Weill's life and collaborators (Theatre Arielle, 432 West 42nd St, 564 8038)
- The Sisters Rosensweig: Wendy Wasserstein's play about 54-year old Sara celebrating her birthday in London with siblings Gorgeous, sisterhood group leader, and Pfeni, international travel writer (Mitzi E Newhouse Theater, 150 West 65th St, 239 6200)
- Juno: a musical based on Sean O'Casey's Juno and the Paycock, which follows the Boyle family in 1921 Dublin (Vineyard Theatre, 108 East 15th St, 353 3874)

■ STRASBOURG

Palais de la Musique 20.30 Uri Segal conducts Strasbourg Philharmonic Orchestra in works by Glinka, Shostakovich and Rakhmaninov, with cello soloist Natalia Gutman (repeated tomorrow). Nov 25 and 26: Jacques Delacôte conducts works by Bernstein, Milhaud and Gershwin (8837 6777)

Théâtre Municipal Tomorrow, Sat and next Tues: Jeunes Gens de Russie, a musical adaptation of Evgeny Onegin after Pushkin and Tchaikovsky, with a cast of young French and Russian singers (8875 4823)

■ UTRECHT

Vredenburg 20.15 Frans Brüggen conducts Orchestra of 18th Century and Gulbenkian Chorus in Beethoven's Ninth Symphony. Next Wed: Krystian Zimerman piano recital. Nov 24: Ute Lemper. Nov 29: Svetlanov conducts Russian State Symphony Orchestra (314544)

European Cable and Satellite Business TV

(all times CET)

MONDAY TO FRIDAY

CNN
2000-2030, 2300-2330 World Business Today – a joint FT/CNN production with Grant Perry and Colin Chapman

Super Channel
0700-0710, 1230-1240, 2230-2240 FT Business Daily
0710-0730, 1240-1300 (Mon, Thurs) FT Business Weekly – global business report with James Bellini
0710-0730, 1240-1300 (Wed) FT Media Europe
0710-0730, 1240-1300 (Fri) FT Eastern Europe Report
2240-2248 FT Report

Sky News
2030-2100, 2230-2300 FT Business Weekly

SATURDAY

CNN
0900-0930, 1900-1930 World Business This Week – a joint FT/CNN production

Super Channel
0830-0900 FT Business Weekly

Sky News
1130-1200, 1730-1800 FT Media Europe

SUNDAY

CNN
1030-1100, 1800-1830 World Business This Week

Super Channel
1900-1930 FT Business Weekly

Sky News
0130-0200, 0530-0600 FT Media Europe
1330-1400, 2030-2100 FT Business Weekly

FINANCIAL TIMES

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Wednesday November 11 1992

Anglo-German priorities

CHANCELLOR Helmut Kohl is doing his best to scotch fears, entertained in 1989-90 in some British government quarters, that he could become a hectoring leader of a dominant united Germany. For the moment, the Federal Republic's main problem – manifested by Mr Kohl's indecisiveness on financing German unity, on international deployment of the Bundeswehr, or on handling refugee inflows – is not strength, but weakness.

Perceptions of Mr John Major have changed, too. The European strategy of the man who has proclaimed Britain's place "at the very heart of Europe" has become ensnared in a tangle of domestic politics.

These leaders of one very important and one less important European country meet in Oxfordshire today at a time when both governments appear bereft of direction. In the comely surroundings of Ditchley Park, there is a risk that hesitation will shake hands with irresolution, and vacillation will sit down with equivocation. To avoid this outcome, Mr Kohl and Mr Major must rediscover common purpose, and ignite the flame of joint action, for the good of their countries and their continent.

Much is at stake. The first small waves of a potential transatlantic trade war are washing towards European shores. Mr Kohl's instinctive desire to forge ahead with European integration may be undimmed. But the realities – in the economic, social and psychological sphere – of Germany's great challenge over unification are making his country look inwards. Germany's persistence in following fiscal policies which indirectly export unemployment to other EC countries could hardly be less *communautaire*. If, partly because of the effects of these policies, Germany enters recession before Britain has departed from its own, the pressures of parochialism will increase in both countries. The economic downturn across the whole of Europe provides one powerful reason why the Maastricht ratification process is in disarray. A much worse result is that the rich EC is not living up to its duty to help stabilise the poor and fragmented countries of the former communist bloc.

In the bilateral field, Mr Major has mended some Anglo-German fences broken by his predecessor. But the failures of communication and understanding between the British and German monetary authorities during the events preceding sterling's departure from the exchange rate mechanism underscored the limits of their co-operation.

In three areas, Britain and Germany can use today's meeting to make headway. Mr Major should persuade Mr Kohl to bring maximum pressure to bear on President François Mitterrand to find a solution to the oilseeds quarrel which is threatening the Uruguay Round. The two countries' defence ministers should strain every sinew to find a sensible compromise over the future of the European Fighter Aircraft, based on the plan for large cost savings outlined by the aerospace industry. On policies towards Europe, Mr Kohl must make clear to Mr Major that one of Britain's main aims – enlarging the Community northwards and eastwards – could be endangered by UK prevarication over ratifying Maastricht.

The British government probably realises that Anglo-German relations will never grow into a source of European strength unless London can simultaneously improve the quality of its links with Paris. Nonetheless, Bonn and London have a compelling interest in working out priorities for moving Europe forward. These will always involve difficult choices. But if bilateral summit meetings become no more than a forum for airing platitudes, governments should save themselves the expense of organising them.

Euro-gloom

THE ELECTION of Mr Bill Clinton as president of the United States may go down in economic folklore as the event which finally switched both the US dollar and the US economy into recovery mode. Yet Mr Clinton should be wary of reading the wrong message from the markets. It is the lack of leadership in Europe that is largely responsible for this shift in sentiment.

The dollar has certainly staged an impressive recovery. Since its record low of DM1.35 in August, the dollar has climbed by 21 pfennigs and by 11.5 per cent on a trade-weighted basis. This explains why sterling has recently looked weak against the dollar while remaining relatively stable against the D-Mark.

A dollar rally had to come – the currency has been grossly undervalued because of the low level of US interest rates compared with European rates. But it is doubtful whether the markets can yet feel confident that a rise in real returns on US investments is in the pipeline. Mr Clinton's election may boost confidence, but there is precious little sign that a strong US recovery is underway. A dollar-boosting rise in US interest rates looks unlikely until Mr Alan Greenspan is confident that the US financial sector is in better shape. Nor does Mr Clinton have much room for fiscal manoeuvre. A large fiscal package could raise long-term interest rates while the promise of action may postpone investment as companies wait for tax breaks to arrive.

It is in Germany and Europe where events and economic prospects appear to have taken a turn for the worse. A sharp cut in German and continental European interest rates has been inevitable for some time: the unknown has been whether they would come soon or very soon. The Bundesbank is still talking tough while the federal government vacillates. But day by day, the west German economy steps nearer to recession.

The recent dollar rally reflects a belief that the Bundesbank is running out of time. But it is also a product of a growing sense of European political malaise.

The UK economy is also paralysed by this stultifying and confidence-sapping gloom. But the British chancellor of the exchequer, as he prepares to deliver tomorrow his autumn financial statement, has one advantage over his continental partners. UK interest rates can fall faster than Germany's. They should do so. In the short term, the authorities should be ready to tolerate a further fall against the D-Mark.

Economic war

ECONOMIC POLICY must come first, says Mr Bill Clinton, the US president-elect. To prove the point, he has promised to create an economic security council on the model of the national security council. Since economic insecurity can hardly be desirable, who could possibly object to the idea? But things are not that simple. Mr Clinton may harbour the dangerous notion that the US is engaged in economic warfare with "enemies" such as Japan and the European Community.

What the economic security council would do remains obscure. Mr Vernon Jordan, chairman of his transition team, has said that Mr Clinton himself intends to chair the new council. Since Mr Clinton has also said that he will focus on the economy "like a laser beam", the council is presumably intended to ensure presidential leverage over economic policy, along with greater co-ordination of its disparate elements.

So far, so harmless, though it should be noted that the proposed council may not improve co-ordination. The tensions between the national security adviser and the secretary of state in previous administrations need only be recalled.

More worrying are the connotations of the title. It might mean a greater focus on domestic problems. But it might also mean that Mr Clinton views economic policy as a war fought by peaceful means. If so, the idea would be more than wrong. It could prove dangerously wrong.

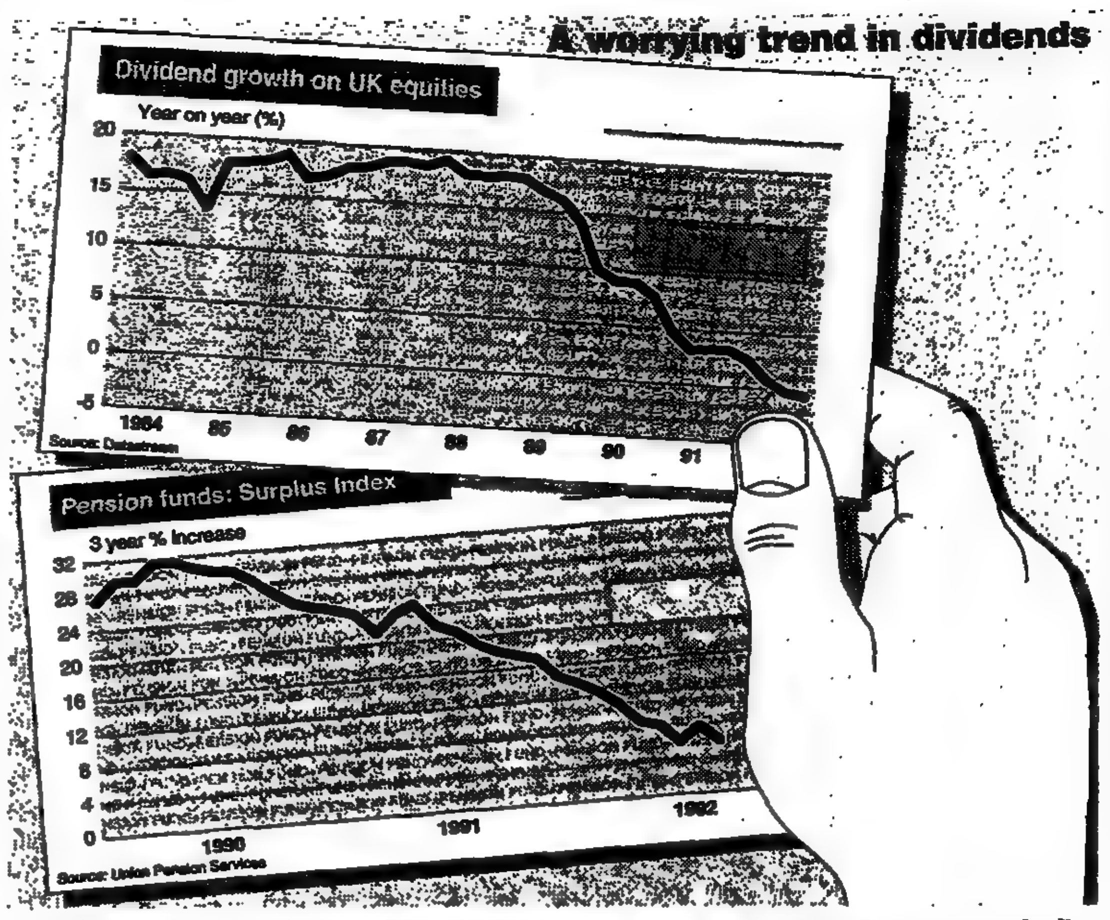
Economic intercourse among market economies is not war. The foreigners with whom Americans do business are their customers and suppliers, as well as their competitors. The Americans who are presumably to be mobilised for the fray are one another's competitors, not just fellow citizens. Economic life is far more complicated than suggested by the myths of economic nationalists.

Nor can a people can be mobilised for economic war, as American troops were mobilised for the desert. When Americans go to work, they do so for themselves, not for their country. Moreover, foreigners are not responsible for making the American savings rate the lowest among leading industrial countries or for impairing their performance at school.

Pursuit of the goal of "economic security" might, in fact, be used to justify the search for foreign scapegoats. But nobody would gain from such a strategy. Superior co-ordination of economic policy would be one thing; an American ministry for mercantilism quite another. Clarification is urgently needed from Mr Clinton.

Too many eggs in one basket

British pension funds may be too dependent on equities, writes Barry Riley



As Britain's £350bn company pension funds seek to repair the damage to confidence caused by the year-old Maxwell scandal, are they ignoring a much bigger danger that may be creeping up on them almost unnoticed?

Leading pensions experts are now becoming worried that pension fund trustees are not sufficiently alert to the dangers of the current economic climate. "Unless the UK and the rest of the world make a sharp recovery from recession, the risks are real and imminent," according to Mr Tim Gardener, a leading consulting actuary.

To an extraordinary extent pension funds are now dependent on the health of equity markets, in which they have nearly 85 per cent of their assets (roughly two-thirds in the UK and one-third abroad).

More specifically, pension funds are sensitive to the growth of the dividends of British listed companies. During the 1980s these dividends rose remarkably, averaging increases of 14 per cent a year during the second half of the decade, and effectively generating the huge pension scheme surpluses which have come to be seen as normal.

But this growth collapsed to 5½ per cent last year and could be slightly negative for 1992. City analysts talk comfortingly of a recovery to 5 per cent growth next year. But some pensions actuaries wonder what might happen should the recession extend and deepen in 1993, which is scarcely a remote possibility as problems spread to continental Europe and the danger grows of a transatlantic trade war.

Mr Gardener, who heads the investment side of Mercer Fraser, one of the top three firms of pension fund actuaries and consultants, warns that the next big pension scandal could be caused by "the combined effect of optimistic actuarial assumptions and an inappropriate asset strategy".

Some of his fears are shared by Mr Stephen Gooch at a rival firm, Clay & Partners. "Some actuaries have moved rather too optimistically in their assumptions," he says. "The situation could turn in the wrong direction quite quickly."

The crisis, if there is one, will develop through the interplay of three obscure and technical characteristics of the UK corporate pensions industry.

- The use of special actuarial valuation methods could rebound in certain circumstances.
- Widespread reliance on median fund benchmarks (in plain English, this means that fund managers copy each others' spread of assets) has driven funds to an unprecedented dependence on risky equities.
- Many British company schemes are now comparatively mature, which means that they have large and imminent obligations to pay out pensions, but may be receiving a proportionately small flow of contributions from members in employment and sponsoring companies.

According to Mr Gardener, the typical actuary is now valuing the assets of pension funds 10 to 25 per cent higher than market prices. This is because share portfolios are valued on the basis of assumed income growth. These methods have served British pension funds splendidly in the past; for example, they sailed through the 1987 stock market crash without even blinking, because dividend growth continued strongly all the while.

Such actuarial valuations have been conducted on the basis of what were thought to be prudent projections of nominal dividend growth rates of about 4½ to 5 per cent a year. Until quite recently these assumptions proved in practice to be too cautious in the short run, and much higher actual income growth has led to the appearance of so-called "surpluses".

These are not piles of cash but only the theoretical result of somewhat arbitrary guesses and calculations about the future. However, there have been very real struggles between companies and workforces over the "ownership" of these flights of actuarial fancy.

There have also been real effects on corporate behaviour, because the surpluses have encouraged companies to cut contributions (many are still enjoying complete "holidays") and thereby boost their profits and dividends.

"Actuaries have had it easy for 10 years," says Mr Bryn Davies, an independent actuary who advises trade unions and local authorities. At the same time, "finance directors have become addicted to pension fund holidays. They have come to regard them as permanent."

Mr Davies calculates a surplus index based upon movements in dividends and employee earnings. Although somewhat theoretical, it clearly shows that schemes coming up for their normal three-year valuations are facing steadily worsening conditions.

In fact a virtuous circle developed in the late 1980s – rising dividends led to pension scheme surpluses which in turn encouraged higher dividends and so on.

A possible nightmare scenario for the 1990s is that this could be reversed into a disastrous vicious spiral in which profits and dividends chase each other downwards as companies are forced to raise their pension contributions, first to "normal" levels and then to crisis proportions.

A more immediate concern for some actuaries is that "discontinuance" valuations are beginning to cause problems. The test here does not concern projections of income and expenditure into the distant future, but whether a scheme has enough assets at market values to meet its liabilities in respect of past service should it be wound up tomorrow. In times of mass redundancies and company collapses, these are far from theoretical considerations.

As interest rates fall it is becoming more expensive for wound-up schemes to buy insurance policies which will guarantee future pensions. Actuaries say that unless equity market values improve soon the number of technically insolvent funds will increase sharply.

In fact the stock market has bounced back since Black Wednesday, but overall growth in share prices for the year so far has been modest and overseas markets have been disappointing too.

"The ethos that equities are the only assets for pension funds is erroneous," argues one leading manager, whose portfolios have a roughly 70 per cent equity content, against the typical 83 per cent. He would prefer a still lower equity exposure, but considers that the risks of departing from conventional wisdom would be too uncomfortable both for his firm and for his clients,the boards of trustees.

The prevalent median benchmark – fund managers are given a target of beating the performance of the typical pension fund – means that asset allocation is backward-looking. Instead of selling overvalued asset classes and buying cheaper ones, fund managers are locked into assets which have performed well in previous years but which they cannot sell because any switches would take them too far away from the benchmark.

Mr Richard Fitzalan Howard is in charge of UK pension fund asset allocation at Robert Fleming, a leading City of London manager. He reports that nearly three-quarters of his clients set a median benchmark.

"An increasing number of clients are adopting customised benchmarks suitable for their profiles," he says. "But it is taking quite a long time for this to sink in."

The maturity factor could mean that any pensions funding crisis would be more difficult to handle than the last one in the mid-1970s, when pension schemes typically had few immediate liabilities but a great many contributing members, and could make substantial improvements to their solvency through relatively affordable increases in contribution rates.

As Mr Gooch of Clays puts it: "The size of pension fund assets is five times bigger in real terms than in the 1970s. The impact of unexpected investment setbacks will therefore be five times greater."

According to Mr Gardener it is not uncommon these days to find a fund where more than 50 per cent of liabilities relate to pensions currently in payment. It will need a lot of cash year by year to meet these obligations. If dividends fall it could experience some difficulties.

He considers that, whereas pension funds are currently configured to protect their assets against the long-term risk of inflation, they are wide open to the short-term risk of economic recession. "The guns are facing the wrong way," he says.

In fact pension schemes that are immature can continue to stick quite safely with equities, almost whatever happens. In the very long run, history shows that equities give the best return. If there are temporary problems with dividend growth, the problem can be adequately covered by juggling the actuarial assumptions and the contribution rates.

But for the majority of schemes there is now a strong argument for diversifying their assets. Essentially this means buying bonds. There will be no shortage: the British government will be selling large quantities of gilt-edged bonds over the next few years, and overseas the US and German governments will be issuing great volumes too.

Fund managers will have to be given different benchmarks, probably involving minimum, higher, exposures to bonds. At present, the average fund has a bare 11 per cent in bonds and perhaps this should go up to, say, 25 per cent, which is roughly what the funds had at the beginning of the 1980s, and compares with about 35 per cent at present for US pension funds.

Yet this is much easier said than done. It could imply dumping £35bn of UK equities, with disastrous consequences for prices. Ideally the shift would be managed through cash flow, but the growing maturity of the funds means that cash flow is barely positive. Pension funds have manoeuvred themselves into a position where they own more than 30 per cent of UK equities. They may be helplessly stuck.

But perhaps, after all, there is really no problem. Pension funds endured Britain's two uncomfortable years in the European exchange rate mechanism, when bonds significantly outperformed equities, but fund managers made no strategic adjustments. Now they have emerged into an altogether more familiar climate of devaluation and a dash for recovery.

Given an improvement in the economy and a modest upturn in dividend growth, the actuaries, trustees and fund managers can relax and pursue their former objectives with renewed confidence.

But what if the recovery deepens? Over-optimism could be punished. It may be that the people in the middle of the next big pensions scandal, in which thousands of pensioners will be denied their reasonable expectations, will not be fat and fraudulent financiers but honest and reasonable pension scheme trustees who thought that it was safe and proper to do more or less what everybody else did but in the end were caught looking in completely the wrong direction.

PERSONAL VIEW

How to help industry

By Lord Tombs

The phrase "industrial strategy" means very different things to different people. To many industrialists it means simply a recognition of the importance of industry to the economic well-being of the nation, and a determination to conduct government business in a way which encourages industry in its task of wealth creation.

To the Labour party it has traditionally meant government intervention in industrial matters, often with undesirable results stemming from the lack of familiarity of politicians and civil servants with the issues, but also from the party's distrust of the activities of industrial management. This distrust has stemmed in part from Labour's close relationship with the trade unions but also from a belief that industrialists do not generally act in the best interests of the nation. The more realistic attitude of the trade unions in recent years has yet to influence the attitudes of Labour politicians in a constructive way.

Be that as it may, Labour governments have usually had positive industrial strategies, although sometimes interventionist and ill-conceived.

By contrast, Conservative governments have generally avoided any form of industrial strategy, preferring to rely on market forces and the "invisible hand" of competition.

The Conservative party regards itself as the natural party of industry, and many of its regulatory initiatives on labour law have been helpful. But in general its policies have been dogma-based, and have contributed little of a positive nature to the industrial base.

Indeed, ideological measures have sometimes been pursued in a way that has harmed industry. Recent examples have been the attempt to maintain a fixed exchange rate within the ERM at enormous cost in terms of employment, bankruptcies and industrial capacity, and the precipitate way in which the electricity supply industry was privatised with no regard to the need for an energy policy which market forces are incapable of managing. The recent ill-conceived pit-closure proposals were the inevitable result.

Happily, the traumatic events which led up to and followed the withdrawal of the pound from the ERM may have induced a change of heart and a recognition that governments are elected to serve the interests of the electors rather than to pursue ideological ends.

But there is no evidence that the cabinet has come fully to terms with a long-term strategy directed towards industrial prosperity. The simile which seems best to describe recent economic measures is that of ministers playing Monopoly in a locked room, with a secret rule book, while wearing ear muffs.

An industrial strategy need not demand vast disbursement of public funds on pet projects – although it must be noted that such programmes as Alvey, which spent £350m on fostering industry/university collaboration in information technology, could qualify for the description of misguided and expensive government intervention.

I would like to see the government make a commitment to an industrial strategy which would go some way to closing the gap with overseas competitors. This could begin with the following measures:

- Subject every government measure – legislative, fiscal or regulatory – to the question: "Will this do anything for British industry?" If the answer is negative or neutral the proposal should be reformulated to derive maximum benefit.
- Examine the ways in which government policies hamper British industry in international markets. Export credit insurance premiums, for example, are often three or four times as expensive as those in competitor countries. The government claims that such measures distort the perfect market and other nations should follow our example of theoretical purity. Well, they don't and they won't, and in the meantime British industry is rendered uncompetitive.
- Start an intensive programme to convince politicians and civil servants of the importance of industry. The educational background and tradition of those groups will make the task a difficult one, but we should take heart from the way the diplomatic service, with similar handicaps, has transformed itself over the past 20 years. The support now available from overseas missions to industry equals and often surpasses that available to competitors. A vital factor in this transformation has been the linking of career prospects with commercial postings and experience. Similar determined action is needed in the wider civil service.
- Make the DTI an important department with a heavyweight minister staying in the post for the life of the parliament. And concentrate more of the general management role of government in the DTI rather than, as at present, in the dead hands of the Treasury.

Such measures would do much to restore the international competitiveness of British industry and help correct the long-standing indifference of the present government to the wealth-creating sector on which, ultimately, all other activities depend.

The author retired last month as chairman of Rolls-Royce.

Leyla Boulton assesses the progress of Russia's privatisation programme and its chances of success

A risky farewell to the nanny state

Russia's mass privatisation programme was recently described by Deputy Prime Minister Anatoly Chubais as the main reason for an alleged coup plot by conservatives to unseat the government when parliament meets in three weeks.

The cabinet, fighting for its survival ahead of the Congress of People's Deputies on December 1, has promised to consult factory directors on privatisation and other economic reforms. President Boris Yeltsin has been negotiating a compromise to protect the thrust of his reforms from a conservative opposition which Mr Chubais, the programme's author, accuses of seeking to "destroy privatisation".

Despite the political hyperbole embraced by both the government and its opponents, the question is not whether privatisation, an essential component of attempts to build a market economy in Russia, will proceed, but whether it can deliver the results expected of it.

The process is under way around the country: from Murmansk in the far north, where the country's biggest trawler fleet is being advised by the US investment bank, Salomon Bros, to the Urals industrial heartland, where the 40-year-old director of one of the biggest heavy engineering plants, Uralmash, is planning how to run a private company.

The government has set itself the ambitious target of privatising more than 5,000 medium and large-scale enterprises, or up to half the country's industrial potential, next year.

It has three goals: to make the transition to a market economy irreversible by creating a class of property owners; to make enterprises more efficient and curb their demand for endless cheap credits from the state; and to stop factory directors appropriating the choicest bits of the state-owned economy.

Far from opposing the reform, many enterprises hope *privatisatsiya* will bring liberation from a cumbersome state bureaucracy which demands a lot but gives little. At a meeting with the government last month in Togliatti, home to the Avtovaz plant which makes Lada cars, directors of the country's 80 biggest enterprises spelt out their grievances.

Mr Viktor Korovin, the head of Uralmash, said he would be unable to sell shares to the public for another year and a half. First, the government had to free enterprises from a heavy burden of social spending on maintaining hospitals, housing, kindergartens and shops for workers. "The government has yet to discuss what it is going to do about non-productive assets which are in fact a form of hidden taxation on my enterprise," he said.

Until he can transfer social facilities from his balance sheet to municipal authorities, which will need state subsidies to run them, he fears the burden they represent will scare off foreign investors.

Many enterprise directors still hope, however, that privatisation will provide a quick fix of foreign investment, technology and know-how – without requiring sweeping changes to the way their enterprises operate, or ceding control to other managers.

The Babayev chocolate factory in Moscow, nationalised by the Bolsheviks seven decades ago, sees privatisation as a way of attracting foreign investors so it can import cocoa beans and machinery which the cash-strapped state can no longer supply.

The Murmansk Trawler Fleet wants the freedom to manage its own affairs, and a foreign partner to help renew its fleet and market its fish. "Before, the state even ordered our ships for us without asking whether we wanted them," complains Mr Yuri Prutkov, the fleet's manager.

Babayev and the Murmansk fleet are among thousands of state-owned enterprises being registered as joint-stock companies, which are able to sell shares to the public. The danger facing many of them is that they might swap the domination of the state for that of the workforce.

About two-thirds of enterprises, in elections strongly influenced by the managers' personal preference, have chosen an option which allows staff to buy 51 per cent of the stock. The benefit for the managers is that they are less likely to be voted out of office by their own workers than by an outside investor seeking to maximise profits regardless of the number of jobs this costs.

Mr Prutkov denies this option will prevent restructuring, arguing that it will simply make the process less painful.

"Everybody will understand that if we don't conduct this painful operation ourselves, then the enterprise will collapse," he says, eyeing a list of obsolete ships, accounting for a third of his fleet, which he would like to dispose of because they cost more to operate than the revenues they generate.

He does not say how many jobs will have to go, but he claims that a hiring freeze will be enough to achieve his target. With two out of five votes on the board of the joint-stock company being created, he believes that he will secure the freedom to manage the enterprise as he sees fit. The other three votes will be held respectively by a representative of the workforce, the local privatisation committee and the local council – a line-up specified in a decree by President Yeltsin but one that can be altered to make way for outside investors.

The success of the privatisation campaign, in which the government has been distributing vouchers enabling each citizen to obtain Rbs10,000 worth of shares, will also depend on the development of a market infrastructure – such as an efficient banking system and a bankruptcy mechanism. In these areas in particular, foreign advice is at least as important as foreign capital. The closest thing to a securities market in Murmansk is a sullen, undernourished teenager sitting in a supermarket, with a sign saying "I buy vouchers" pinned to his chest.

On the eve of the planned start in January of share sales, the country does not yet have a securities law to regulate its fledgling stock exchanges, let alone a system of enforcing existing regulations.

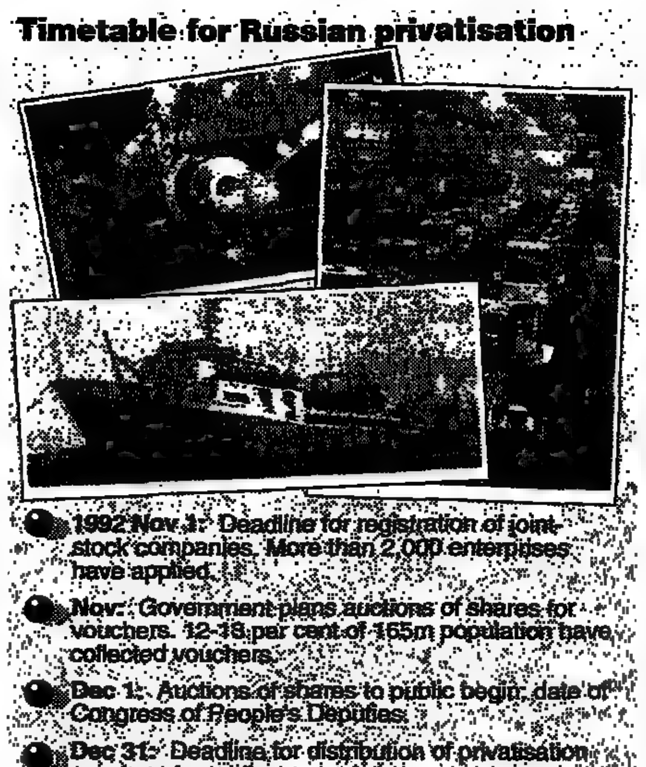
In an attempt to protect small shareholders, the government is encouraging the establishment of some 2,000 investment funds, which will spread investment risk across a broad portfolio of shares for citizens who buy into the funds with their vouchers. Later this month, the European Bank for Reconstruction and Development hopes to stage the first ever auction of shares. It has also teamed up with Crédit Commercial de France to organise a model investment fund.

But recognising the danger of relying on share sales alone to create property owners, the government has also decided to allow people to exchange their vouchers for more tangible assets such as hairdresser shops, trucks and cows.

Given the formidable obstacles, the tight targets set by the government may seem unrealistic. The privatisation programme will deliver its goal of creating a market economy but not in the timespan allotted for it. This is because change happens slowly in bureaucratic Russia.

The most effective way of getting anything done is to demand more than it is realistic to achieve. In that sense, privatisation has already started to be a success.

Timetable for Russian privatisation



- **1992 Nov 1:** Deadline for registration of joint-stock companies. More than 2,000 enterprises have applied.
- **Nov:** Government plans auctions of shares for vouchers. 12-18 per cent of 165m population have collected vouchers.
- **Dec 1:** Auctions of shares to public begin; date of Congress of People's Deputies.
- **Dec 31:** Deadline for distribution of privatisation vouchers to public.
- **1993:** Another 5,603 enterprises, employing 7m, to sell shares to public.

The closest thing to a securities market in Murmansk is a sullen teenager with a sign saying 'I buy vouchers'

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

Liffe will retain edge over DTB

From Mr David Hardy.

Sir, I must disagree with the assertion by Deutsche Terminbörse (DTB) that its clearing facilities will give it a competitive edge over Liffe ("Competition between Liffe and DTB intensifies", November 5). This certainly does not show in existing business where, as your article states, Liffe has a 67 to 70 per cent share of the bond futures market and the DTB only 30 to 33 per cent.

The London Clearing House (LCH) clears Liffe and the other London futures exchanges. LCH's real-time clearing system and cross-market risk management and banking systems allow it routinely to handle volumes many times larger than the DTB's – over 1m contracts were cleared in one day in September.

The breadth of Liffe's European bond contracts, and the margin offsets LCH provides between them, will be a major advantage for the new "Bobl" contract Liffe is introducing.

David Hardy,
managing director,
London Clearing House,
1-2 Crutched Friars,
London EC3N 2AN

Not equitable

From Mr Heinz Astor.

Sir, I refer to Dominic Lawson's article, "Conservatives sell their birthright" (November 7), concerning the Leasehold Enfranchisement Act. I am surprised someone with his background should be taking the side of the feudal landlords, unless it has something to do with social climbing.

Most likely there is no country left in Europe where this archaic system is still in existence. I assume that the vast tracts of land still owned by a few families were either appropriated or gifted by some long since discredited king or ruler. This system of handing down ancestral acquisitions is hardly equitable in these days where nothing else is handed down.

Heinz Astor,
10 South Terrace,
London SW7 2TD

Boom and bust policy, not workers, to blame for crisis

From Mr Jimmy Airlie.

Sir, Your editorial ("CBI obfuscation", November 10) ignores the scale of Britain's economic crisis and the damage it has inflicted on the motor industry.

Instead of identifying that the market for cars has been entirely undermined by boom and bust economic policy, you lay the blame on industry and trade unions. The fact is that demand has plummeted in the last two years, reflected in the fall in car sales to a 10-year low.

The two excellent pay increases mentioned for Ford workers in recent years were a direct result of the achievements of those employees in the 1980s. Ford plants in Britain are now most efficient, with lower unit costs than any comparative European plant. Should these productivity gains not be rewarded? Trade unions are not in the business of martyring their membership as and when government policy fails, but of defending and improving living standards of working people. Car workers, supported by their trade unions, refuse to shoulder the burden of government economic mismanagement.

Jimmy Airlie,
secretary, Ford national negotiating committee,
Amalgamated Engineering and Electrical Union,
110 Peckham Road,
London SE15 5EL

From Mr Jim McCarthy.

Sir, With all the integrity of a cabinet minister, you blast both trade unions and employers for failing to recognise the need for investment and profit increases, citing Ford as an example ("CBI obfuscation"). How short the memory is.

Every pay and conditions settlement within Ford during the last decade was related to rationalisation and productivity improvements. During the same period Ford achieved record profits on more than one occasion. Additionally, investment in plant and people was at an all-time high.

So why the economic downturn with no apparent relief in sight? Without a job you cannot afford to buy a car. If you have a job, but fear for it, you will be more than reluctant to buy a car, especially as most cars are purchased through finance agreements that require employment stability. This situation cannot be addressed by micro-adjustments. Rather, there is an urgent need for the government to provide a macro-economic framework.

The UK has some of Europe's best-equipped factories and they are lying idle. These factories have received investment and are capable of high productivity but, without the consumer, they are like engines without fuel. And the only fuel on offer at present is hot air.

Jim McCarthy,
64 Park Street,
Beeston, Nottingham NG9 1DH

A decline that emphasises depth of recession

From Mr Harry Price.

Sir, Although the UK construction industry has recently gained an unenviable credit and failure record, builders' merchants have long records of being well-established and financially sound. Sadly the current recession is destroying this reputation.

The Builders Merchants Federation (BMF), whose members include the vast majority of bona fide builders' merchants, with a combined turnover of over £5bn, produces an annual comprehensive profits and costs report based on members' individual returns. The latest report for the year ending March 1992 contains some very disturbing results.

Turnover, already in decline in the previous year, shows a further fall of 7.6 per cent, excluding inflation. The dire statistic, however, is that 35.2 per cent of all merchants lost money, and of these over half traded predominantly in the south-east.

The decline continues and the next report is likely to show that losses will be much greater and more widespread.

Many merchants are facing difficulties in spite of strenuous cost-cutting and staff reductions. If the trend is not halted in the very near future, many merchants will disappear and their vital role in the distribution chain, plus the credit facilities they provide will be severely and permanently diminished. This will be to the serious detriment of the industry and the country as a whole.

Harry Price,
chairman,
profits & costs committee,
Builders Merchants Federation,
15 Soho Square,
London W1V 5FB

Time for UK to grasp opportunity in Russia

From Mr Peter Knowles.

Sir, Re your article, "Welcome Mr Yeltsin" (November 9), no greater commitment could be signalled to Russia than to provide it with a $1bn loan. To date, very little has emanated either from the private sector, Export Credits Guarantee Department or NCM credit agency. Surely the time is right to rectify our position and to compete with our apparently braver German and American cousins who are currently providing trade finance.

British companies would be delighted to sell their goods and services into such an enormous market. Both NCM and ECGD could provide the $1bn facility, with repayments made in oil. The British government now has an opportunity to prove its commitment to UK industry.

Peter Knowles,
chairman,
CIC Investments Inc,
211 Piccadilly, London W1

UK government must face question of whether to 'monetise' debt

From Mr Julian Brazier MP.

Sir, Your leader, "Spending dilemmas" (November 9), refers to the "substantial easing" of monetary policy since September 16. Yet that has occurred against a background of a precipitous decline in the annual growth of the Bundesbank's main measure of money (M3) in Britain to 3 per cent at the end of September. Seasonally adjusted lending in that month actually fell.

The most important question the chancellor must address in Thursday's Autumn Statement is whether the government should "monetise" at least part of its deficit.

The truth is that there is not enough capital in Britain to raise next year's likely PSBR without sucking up savings that are badly needed in the private sector. Even if base rates were to be reduced, such borrowing would lead to an upward twist in the yield curve.

Yet to cut total spending plans in the teeth of a deep and worsening recession would hardly promote recovery, nor would tax increases.

The danger we face is not a resurgence of inflation but a credit implosion. Even the difficulties of negative equity in domestic housing pale besides Britain's growing acreage of empty commercial property, ticking away at the heart of our banking system, against which it is secured.

Many economists will argue that, even under such circumstances, no responsible government should print money, for that is what monetisation, by whatever means, amounts to. Yet from fiscal 1987 to 1990, a cumulative £27bn public sector surplus did nothing to dampen runaway monetary growth, precisely because it was used to repay debt rather than "sterilise" money. The counterpart of the same problem applies today.

On Thursday an announcement is needed that the deficit will be at most partly funded, so that interest rates, long and short, can be brought down and kept down until the money supply is restored to health.

Julian Brazier,
House of Commons,
Westminster,
London,
SW1A 0AA

OBSERVER

Settling an old score

■ Whatever their current difficulties, one should never underestimate the British royal family's pulling power with foreign leaders. Take Boris Yeltsin's lunch with the Queen yesterday. It was the highlight of the ex-construction worker's first official visit to London.

"We sat next to each other for two hours, and all the time we talked as if we had known each other for years," said a delighted Yeltsin afterwards. Meanwhile, the Queen's agreement in principle to make her first state visit to Russia set the royal seal of approval on the new Russia, and its first democratically elected leader. No date has been fixed but Yeltsin promised, "We won't have to wait too long".

The Queen's acceptance was a personal triumph for Yeltsin, who, in the now officially dead Soviet past, used to be the communist party boss in Sverdlovsk. This was the city, then called Ekaterinaburg, where the Czar and several of the Queen's other relatives were executed on Lenin's secret orders.

It was that deadly act which made it impossible for the Queen to accept an earlier invitation from Mikhail Gorbachev who, for all the west's approval of perestroika, was still head of the Communist party and leader of the Soviet state.

Whitewash

■ The CBI showed a curious logic when choosing the speakers for its annual conference yesterday. In the debate on corporate governance, the chief proponent of the CBI's case was Martin Taylor, vice-chairman of Hanson.

Hanson's contribution to corporate governance is uncertain; it is run by two elderly peers, one of whom – Lord White – is not on the board at all.

There then followed a debate on excellence in manufacturing, entitled "competing with the world's best". One of the main speakers was Fisons' boss, Cedric Scroggs. Fisons, it may be recalled, has had its profits slaughtered this year because it cannot manufacture some of its drugs to the standards required by the US health authorities.

Understandable

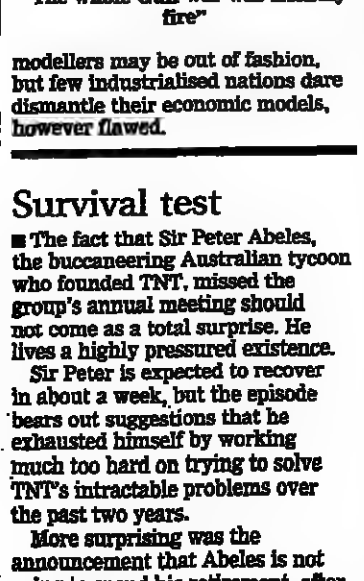
■ "When the new chief executive took over what he found was the paramilitary wing of an old folks' home where the attitude was 'If I want your opinion, I'll give it to you'." *Contribution to be found in a forthcoming CBI report from an anonymous chieftain.*

Old model

■ At first sight, Lawrence Klein, the 72-year-old Nobel economics prize-winner, would not seem the most obvious person to advise China on how to reform its economy. After all, Klein, author of The Keynesian Revolution and founder of Wharton Econometrics, has been associated with the sorts of economic policy and instruments which have not been an unqualified success in Western economies.

By contrast, China's private sector is booming and the economy is growing at an annual rate of 10 per cent plus. Now might not seem the best time for the powers-to-be to start tinkering with the sort of micro-economic management that has failed elsewhere.

However, China is no stranger to stop-go economic policies and Klein, who has made eight trips to the country, is no novice on the country's problems. Even fast-growing countries have to manage their growth, especially if this involves dismantling the complex structures of socialist bureaucracy. Econometric modellers may be out of fashion, but few industrialised nations dare dismantle their economic models, however flawed.



"The whole Gulf war was friendly fire"

Survival test

■ The fact that Sir Peter Abeles, the buccaneering Australian tycoon who founded TNT, missed the group's annual meeting should not come as a total surprise. He lives a highly pressured existence.

Sir Peter is expected to recover in about a week, but the episode bears out suggestions that he exhausted himself by working much too hard on trying to solve TNT's intractable problems over the past two years.

More surprising was the announcement that Abeles is not going to spend his retirement, after all, helping to sort out the problems of Ansett, the airline jointly-owned by TNT and Rupert Murdoch's News Corporation. TNT says that Sir Peter had decided that Ansett's return to modest operating profits in the latest quarter meant the airline could safely be left in the hands of Ken Cowley, Murdoch's top man in Australia, who is joint chairman. A more likely explanation is that Ansett's owners may be nervous about Sir Peter's swashbuckling approach to the airline's problems.

Republican allure

■ So Peter Cohen has come home, at last, to the company of bankers who love and respect him.

There is indeed a certain sense of *déjà vu* in the re-emergence of the former Shearson Lehman chairman – who left the American Express group amid such acrimony two years ago – to run Edmond Safra's new securities business.

Not only has Cohen been friends with Safra for more than two decades, he is also an old chum of Jeffrey Keil, president of the Republic banking unit. The two go back to Cogan, Berlin, Weill and Levin, the firm that merged with Hayden Stone and was the precursor of Amex's Shearson Lehman Hutton. Keil left in 1973 to join Republic, but they kept up a close business relationship – with Cohen leaping to Republic in 1978, before changing his mind a year later to return to Shearson. "We never really stopped working together," said a dewey-eyed Cohen.

Spin-doctored

■ President George Bush's lips may not be worth reading any more, but one well-worn Bushism has just arrived in the UK. His inimitable way of denying any knowledge of the Irangate arms-for-hostages deal has seeped into the patter of the British Ministry of Defence. A civil servant, when asked whether there would be a defence review after Thursday's Autumn Statement, replied: "I'm sorry, but I'm out of the loop on that one."

FINANCIAL TIMES

Wednesday November 11 1992

Touching farewell: A man puts his hands to the window of a bus carrying his family from the besieged Bosnian capital of Sarajevo to Split

Weeping refugees flee Sarajevo

Red Cross convoy carries women and children from besieged capital

By Laura Silber in Belgrade and David White in Split

MORE THAN 1,000 Moslem and Croat refugees yesterday began a hazardous journey from Sarajevo to Split, the Croatian port, after being trapped for more than seven months by a Serbian siege of the Bosnian capital.

As a convoy of 14 Red Cross buses carried the women and children from the capital, many passengers wept, waving desperately at friends and families left to an uncertain future in the devastated city. A separate convoy carrying Serb refugees set off for Belgrade, the Serbian and federal capital.

An estimated 6,000 people are due to leave the city during the next few days.

The United Nations has distanced itself from the evacuation because of fears of being seen to assist the Serb policy of ethnic cleansing. Humanitarian officials also fear the evacuation is only the beginning of a mass exodus from the city to escape death from exposure or starvation.

The civilian evacuation may pave the way for Serb fighters to seize Sarajevo despite a pledge made yesterday in Sarajevo by military officers representing the warring parties in Bosnia that they would observe a fresh ceasefire.

The announcement coincided with reports of continued fierce fighting near the strategically important Croat-held city of Mostar, 75 miles to the south.

Heavy fighting broke out east of Mostar on Sunday with an offensive by the HVO, the Bosnian Croat army. Serb forces retaliated by shelling Mostar and the Dubrovnik area of Croatia. An aid convoy had to turn back on Monday.

Radio in Belgrade yesterday said 20 Serbs were killed and 100 injured. The setbacks experienced by the Serb forces may explain their willingness to sign another ceasefire pledge to take effect throughout Bosnia at midnight. The agreement emerged from the mixed military working group meeting under UN auspices in Sarajevo, but was greeted with scepticism.

Control of the Mostar road is critical for UN-supported aid efforts.Spanish UN troops, charged with protecting convoys from the coast, were yesterday reconnoitring the road north of Mostar. The Spanish have been talking to Serb forces, who hold positions east of the road, as well as to Croat and Moslem commanders.

Colonel Francisco Javier Zorza, commanding the 740-strong Spanish force, said relations had been good up to now. The different sides had promised not to attack aid convoys.

Bosnia's Moslem-led government has rejected a peace offer by Mr Radovan Karadzic, the Bosnian Serb leader, in return for the land his fighters have seized, representing nearly three-quarters of the republic.

Mr Karadzic said his proposal was the only way to end the fighting, but a Bosnian government spokesman described the offer as "just another game by the Serbian side."

Mr Karadzic also proposed a UN-supervised ceasefire along current front lines, seperation of forces, joint patrols in Sarajevo and withdrawal of Croatian forces from Bosnia.

The Karadzic plan was a response to a proposed new constitution for Bosnia by UN special envoy Cyrus Vance and the EC's Lord Owen.

THE LEX COLUMN

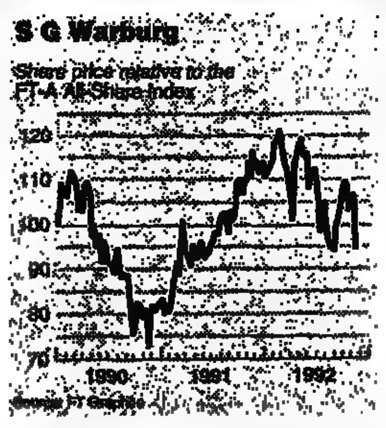
Water softener

Yesterday's missive from the water regulator will add to his reputation as a reasonable sort. Mr Ian Byatt is committed to medium-term regulation and allowing water companies to keep the fruits of efficiency. That was just what the market wanted to hear. Still, the document offers little to help the market make even an educated guess at the outcome of the 1994 review. The next fight will be over how to value the industry, from which appropriate return on capital will be calculated.

This could still be anything from £11bn, which is the market capitalisation of the sector once net debt is added back, up to £100bn, the replacement value of water assets. On the basis of last year's figures, the industry's return on capital could be anywhere between 10 per cent and 1 per cent depending which approach is used. Equally, the regulator has still not indicated what levels of dividend growth and interest cover he thinks are necessary for water companies to fund capital investment.

Anglian's interim results were a timely reminder that some companies are more of a hostage to the regulator than others. With few interests outside the regulated business and a capital expenditure programme weighted heavily towards the second half of the decade, Anglian badly needs a favourable pricing formula post-1995. On a favourable reading of yesterday's document, though, the company may have got the measure of the regulator. Efficiency and high standards of service in the core business will evidently be rewarded. Whether the rewards will be enough to maintain dividend growth remains an open question.

FT-SE Index: 2714.6 (+19.2)



United Biscuits

One can well understand UB's satisfaction at successfully netting CCA. Australia's number one snacks business was one of the few big prizes left in global snacks. The price looks keen by comparison with other international food deals under negotiation, in part because Pepsico could always be ruled out of the bidding on competition grounds. UB can now claim market leadership over its big North American rival both in Europe and the Asia Pacific region.

None of this, though, is necessarily going to impress UB shares. For all the grand talk of strategic expansion, the company is essentially buying a well-managed Australian operation with a useful Italian add-on. The £200m purchase price should be put in the context of UB's £1.7bn market capitalisation, while the acquired sales represent a mere 5 per cent of the group's total. CCA's future will be volume rather than margin-driven, with benefits from integrating existing UB products for the longer term.

The key to the shares, which have risen 45 per cent in the last two months, remains the extent to which Keebler can be knocked back into shape. So far the measures announced with the interims seem to be clawing back market share, though Keebler's second half profits are likely to be as disappointing as the first. The risk is that the 1993 bounce currently being discounted by investors is to a large extent dependent on factors outside UB's control.

T&N

Marrying piston and piston ring manufacturers is clearly a growing business. Carmakers look increasingly to component suppliers to spread the load of development costs and the supply of whole assemblies certainly helps. From that point of view, putting T&N's piston expertise together with Goetze's ring manufacturing makes sense. It should help get T&N products specified for German manufacturers such as VW, where the company has had little luck in the past.

However, the timing of the deal is more questionable. T&N's management is buying into Germany at a time when the economy, and particularly the car market, is turning down. True, Goetze has plenty of business outside Germany, but the whole European car industry will remain weak throughout 1993. So it is not yet clear that T&N is buying when German assets are at their cheapest.

Even if that is the case, the deal means a further cash outflow. Granted, the staged nature of the payments lessens its impact, but the company has in recent years spent heavily on acquisitions, research and capital expenditure and is currently paying an uncovered dividend. Interestingly, that dividend is up for consideration in the spring at the same time as the first payment is due to be made. T&N has left the door open for a placing to fund the first stage. If the dividend is maintained and prospects are good it could get the issue away easily. Yet if poor earnings force a cut, the company would find the placing difficult just when it most needed it.

S.G. Warburg

Warburg's claim to merchant banking excellence suddenly looks a little hollow. Some fall in first half profits was to be expected, given the difficult market environment. What comes as a surprise is that the bank has pulled out of German leasing at a cost of £12m, only three years after it went in. Warburg now sheepishly admits its original decision to enter the business was mistaken. Similarly the loss of perhaps £10m in the bond market upheavals of May and September seems uncharacteristically careless for an institution of such professional pretension. Warburg's problems go beyond the cycle.

One explanation may be that its UK market share has peaked, while it has still not reached critical mass in the international arena. The bank denies rumours it was ever talking to J.P. Morgan. But some international partnership might be a good idea, since expanding internationally alone is either slow if attempted organically or expensive if done by acquisition. If the temptation is to take greater risks on its own account, as Warburg seems to have done in both leasing and bonds, justifiable doubts about the quality of its earnings can be raised.

Supporters would say Warburg's undeniably strong position in the UK market gives it the flavour of a recovery stock. Mercury Asset Management is also a strong performer, especially after adjusting its £35m profit for the one-off £4m charge against Isosceles. But MAM's result only serves to underline Warburg's own recent lack of achievement in investment banking. Its shares may not easily recoup yesterday's 9 per cent fall.

Yeltsin ready to use special powers

By Anthony Robinson, East Europe Editor, in London

MR Boris Yeltsin, the Russian president, told the UK parliament in Westminster yesterday that he would use extraordinary powers if necessary to prevent any attempt by "anti-reformist adventurers" to turn the country from the path of democracy and market reform.

He labelled potential coup members as "leftovers from the old Communist party and government elite, militant nationalists, incompetent collective farm bosses and political adventurers."

Mr Yeltsin then dismissed them contemptuously as "ghosts of the past, playing to a theatre of shadows".

Speaking from the Royal Gallery in the House of Lords, Britain's second chamber, a privilege which symbolised the high profile given to his visit, he promised members of both houses of parliament: "If necessary, I'll use the emergency powers given to me by the people". These powers allow Mr Yeltsin to govern by decree.

His visit to Westminster followed the signing on Monday of a friendship treaty, which promised to usher in a new era of close political, economic and military co-operation.

Yesterday, after lunching with the Queen at Buckingham Palace, Mr Yeltsin said she had accepted his invitation to visit Russia. This underlines the Royal family's acceptance of Russia as a new, democratic state untainted by the blood of their Czarist relatives executed on Lenin's orders by the former communist regime.

Extolling Westminster's centuries-old practice of democracy, Mr Yeltsin described himself as the "representative of one of the very youngest democracies". He told legislators: "One of our central problems is how to achieve a functioning balance between the legislative, executive and judicial institutions". Russia was looking for solutions in a new constitution to replace the amended Soviet constitution still in force.

Echoing words which were once the trademark of Lady Thatcher, the former UK prime minister, Mr Yeltsin told parliament "there is no alternative" to the painful economic reforms being undertaken by the Russian government. His words were directed beyond his audience to domestic critics of the Russian government's attempt to impose tough monetary restrictions on lossmaking state enterprises and military industries.

Early next month Mr Yeltsin, and many of the reformist ministers he brought to London, face a critical session of the Congress of Peoples Deputies which is expected to demand the resignation of reformers and a partial return to central control over the economy.

In his address to parliament Mr Yeltsin sought understanding for his government's concern for the rights of ethnic Russians in the Baltic states and other former Soviet republics.

Before departing for Budapest, where he is expected to discuss possible arms sales to offset Russia's outstanding debt and other bilateral issues, Mr Yeltsin said he was "greatly satisfied" by his first official visit to London.

Reformers stand firm, Page 3

Emu role suggested for Efta

By Quentin Peel in Bonn

THE GERMAN Bundesbank's top economist, Mr Otmar Issing, suggested yesterday that European monetary union could proceed with an inner core of European Community countries and a number of new members from the existing European Free Trade Association.

He suggested that such a "deepening" process involving only some of the EC member states need not be inherently contradictory to the process of enlarging the Community.

At the same time he urged what would appear to be a third tier of EC adherence to accommodate the emerging democracies of eastern Europe by allowing them greater access to the EC market without full membership.

Mr Issing, a full member of the Bundesbank's governing council and directorate, set out his ideas at a seminar on Europe organised by Germany's ruling Christian Democratic Union in Bonn.

His ideas do not reflect current German government policy. However, they do reflect the thoughts about the long-term future of the EC in the highest levels of the Bonn administration, faced with the growing uncertainty over the Maastricht treaty and European political and monetary union.

He warned against greater institutional integration of the EC – known as "deepening" – leading to more protectionism, by reinforcing the common rules of key sectors such as agriculture, industry, energy and steel, at the expense of outside competitors. That would lead to a form of "fortress Europe," he said.

However, a deepening, in the form of monetary union involving only those member states capable of meeting the EC economic convergence criteria of strictly controlled inflation, public borrowing and budget deficits, could be seen as a move to "preserve the existence of the Community".

On the one hand, that might mean the expulsion of the non-participating states from the "centre of gravity" of the EC. On the other, by bringing in new member states capable of joining the monetary union immediately a new inner core of integrated states could be created. He said such a core group could provide "adequate internal stability".

As far as eastern Europe was concerned, he said it was essential not to exclude countries like Poland, Czechoslovakia and Hungary, but it was equally impossible for them to fulfil the full EC membership criteria in the near future.

Struggle to keep Maastricht on the rails, Page 2

French control of BfG Bank

Continued from Page 1

allowing it to make a DM120m operating profit last year, compared with a DM390m loss in 1990.

Mr Alexis Wolkenstein, managing director of Crédit Lyonnais Europe, said BfG should be profitable this year, but that the final figure depended on the amount of provisions to be made on BfG's DM3.5bn of sovereign loans.

It set aside 50 per cent provisions for bad sovereign debt at the end of 1991 and this would rise to more than 70 per cent in the current year, Mr Wolkenstein said.

The deal will pave the way to final reconciliation between AGF and AMB, whereby the French insurer will obtain full voting rights on its 25 per cent stake in the German company.

World Weather

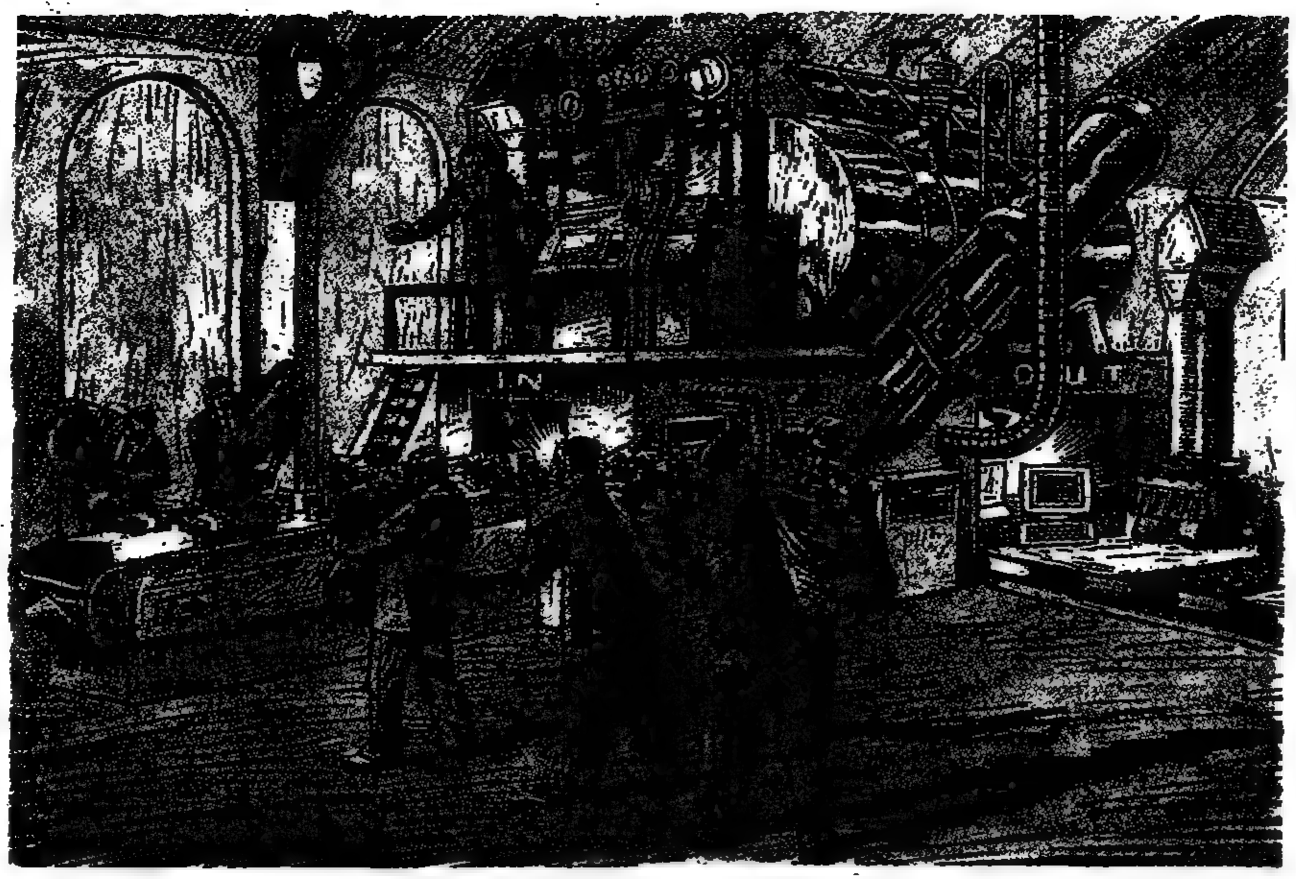
		°C	°F
Ajaccio	S	19	66
Algiers	S	23	73
Amsterdam	F	10	50
Athens	F	16	61
Bahrain	S	28	82
Bangkok	F	27	81
Barcelona	C	19	66
Beijing	S	10	50
Beirut	S	22	72
Belfast	F	6	43
Belgrade	S	10	50
Berlin	R	8	46
Biarritz	C	13	55
Bombay	S	34	93
Bordeaux	F	15	59
Boulogne	F	11	52
Brussels	F	10	50
Budapest	S	6	43
Buenos Aires	F	28	82
Cairo	S	24	75
Cape Town	S	21	70
Caracas	C	28	82
Casablanca †	F	19	66
Chicago †	C	9	48
Cologne	F	11	52
Copenhagen	C	8	46
Corfu	S	19	66
Dallas †	C	19	66
Dublin	S	8	46
Dubrovnik		–	–
Edinburgh	S	8	46
Faro	S	19	66
Florence	F	15	59
Frankfurt	S	10	50
Geneva	R	11	52
Gibraltar	S	19	66
Glasgow	R	8	46
Helsinki	C	3	37
Hong Kong	S	19	66
Innsbruck	C	9	48
Inverness	S	6	43
Islamabad	F	23	73
Istanbul	[illegible]	9	48
Jakarta	R	31	88
Johannesburg	S	26	79
Lisbon	F	17	63
London	C	10	50
Los Angeles †	S	15	59
Luxembourg	F	10	50
Madeira	F	20	68
Madrid	F	15	59
Majorca	S	19	66
Malaga	S	20	68
Malta	S	22	72
Manila	C	31	88
Melbourne	[illegible]	18	65
Mexico City	C	19	66
Miami †	R	24	75
Milan	C	12	54
Montreal †	F	-4	25
Moscow	S	-5	23
Munich	C	12	54
Nairobi	C	24	75
Naples	F	21	70
Nassau	C	30	86
New Delhi	S	26	79
New York †	S	2	36
Nice	F	16	61
Nicosia	F	22	72
Oporto	C	14	57
Oslo	Sl	1	34
Paris	C	12	54
Prague	C	4	39
Reykjavik	S	0	32
Rhodes	S	19	66
Rio d'Janeiro	C	33	92
Rome	F	20	68
Salzburg	S	13	55
S'Francisco †	S	11	52
Seoul	C	5	41
Singapore	F	30	86
Stockholm	C	5	41
Strasbourg	C	10	50
Sydney	S	20	68
Taipei	F	18	64
Tangier	F	21	70
Tel Aviv	C	21	70
Tenerife	C	21	70
Tokyo	S	21	70
Toronto †	C	6	43
Tunis	S	25	77
Valencia	S	21	70
Venice	C	11	52
Vienna	S	6	43
Warsaw	S	4	39
Washington †	S	2	36
Zurich	R	10	50

Temperatures at midday yesterday
† Noon GMT temperatures
C – Cloudy Dr – Drizzle
F – Fair Fg – Fog H – Hail
R – Rain S – Sunny
Sl – Sleet Sn – Snow
T – Thunder

CORPORATE TREASURY MANAGEMENT

The treasury function has come to be recognised by companies big and small as a vital component in financial planning and control. However, the debate about whether the department should be run as a cost or a profit centre continues, writes Tracy Corrigan

From back room to mainstream



CORPORATE treasury management, once the domain of back-office boffins, has come to be recognised as a vital part of a company's financial structure.

Responsibilities range from handling relations with the company's banks and arranging cash transmissions to hedging exposure in foreign currencies and raising outside finance. Depending on the size of the company, these dealings may be handled by anyone from the chairman to the company secretary, but Mr Derek Ross, a partner at accountants Touche Ross, estimates a company needs to consider hiring a full-time treasurer when turnover reaches £200m to £250m.

Even in small companies without an identifiable treasury operation, the treasury function exists. At large companies such as BP, the treasury operation is the size of a small bank.

The loss of £150m on foreign exchange dealings by the treasury department of Allied-Lyons, the UK food and drinks group, proved a vivid reminder of the danger of losing control of corporate treasury operations. The Allied-Lyons debacle helped start a trend for greater integration of treasury operations, with stronger ties to the main board of the company.

Greater efforts are being made by many to keep the treasurer in the mainstream, with large groups, such as BP and Unilever, putting line managers in charge of treasury operations. The job of the treasurer is to "keep the company's options open, so it can launch a new product or open a new factory," believes Mr Gerald Leahy, director-general of the Association of Corporate Treasurers.

Recessionary pressures have also reinforced the importance of strong treasury operations, with funding or liquidity difficulties threatening to bring many companies down. Mr Leahy, believes the recession has re-focused attention on the core role of the treasurer: "If there is no cash, there is no business," he points out.

Large, top-rated companies can still gain financing in the public bond markets, but there has been a shift away from some of the complex structures used for funding in the 1980s, such as multi-option facilities and puttable convertible bonds, as companies try to rebuild banking relationships.

Banks themselves, however, are strapped for cash, and have become increasingly cautious about corporate lending, following a series of huge losses on the Canary Wharf development in London Docklands, the Maxwell empire and elsewhere.Pressure on bank capital, owing to the imposition next year of new capital adequacy standards by the Basle committee on bank supervision, a grouping of international bank regulators, has further constrained lending. The structure of the capital requirements, which requires smaller amounts of capital to be set aside for sovereign than for corporate loans, has also discouraged lending to companies.

"Until the banks get back to lending money again, we may not have a recovery (from recession in the UK)," Mr Leahy observes. "Medium- and smaller-sized companies are being crucified. Entrepreneurial companies which were encouraged to borrow money through bank credit lines and overdrafts during the 1980s are now being told to repay."

The practice of recalling funds from over-extended companies, which borrowed heavily in the credit boom of the 1980s, effectively putting them out of business, has, indeed, become increasingly common. In addition, many viable businesses have come under threat, as a result of the withdrawal of banks from the market. Many foreign banks have, for example, pulled out of the UK market, after offering aggressive rates to gain business in the 1980s and some of these bank lines have proved difficult to replace.

Many corporate treasurers now take a dim view of bankers' attitudes, though when banks were competing for their business at cut-throat rates in the 1980s, treasurers were keen to squeeze the last basis point from a deal.

Many companies have now established stronger lines of communication with their bankers, so that the bank can be kept informed of any potential cash-flow problems.

Greater attention to bank relationships, and an unwillingness to rely too much on short-term debt, are among the ways in which companies have become more risk-sensitive. Company treasurers have also become more concerned about credit risk. While some companies have suffered because of their own declining credit-worthiness, other companies have begun to focus on their own exposure to credit risk. In the swaps market, companies are paying more attention to the counterparty risk of agreements with lower-rated banks. They are also more careful about which banks they lend money to, in the form of bank deposits, following the collapse of BCCI last year.

More importantly, there is now a strong focus on how companies control their own financial risks. Now that company boards are paying greater attention to treasury policy, careful consideration is being given to a wide range of issues, such as how to define risk, what constitutes speculation, and what qualifies as hedging.

Company boards are no longer content to leave treasury to the experts. Experience has shown that it is important for senior management to be aware of the risks the treasury is running, and the nature and purpose of deals. Equally, treasury managers are learning how to see their financing techniques in the context of the company's overall balance sheet.

Auditors themselves are learning to come to grips with the complex financial products now routinely used in treasury management.

The debate about whether a treasury department should be run as a cost centre or a profit centre also continues, though opinion appears to be moving against the profit-centre approach. Many treasurers are dubious about how objective any analysis of profitability can be, since other parts of the group are obliged to process financial transactions through the treasury. Another argument is that a cost-centre approach can create a more speculative culture, closer to a bank trading room, which is inappropriate for what is essentially a service for other parts of the company. However, the argument between the profit-centre and cost-centre approach should not be allowed to obscure the fact that a cost-centre treasury can lose as much money as a profit-centre, if controls are inadequate.

The application of stringent controls has become more urgent as a result of the increasing use of complex derivative products by companies. The losses at Allied Lyons stemmed from the unusual practice of writing currency options, which can lead to unlimited losses. Usually, only banks, which manage their risks on a continuous basis, take on that sort of exposure. But most treasurers of large companies buy options and are involved in swap transactions, often with complex "bells and whistles" attached.

Concern about practices within treasury departments has also reached institutional investors in companies' shares, since treasury practices can have substantial impact on company profitability. The head of Prudential Portfolio Managers (PPM), one of the largest institutional investors in the UK stock market, recently called for greater disclosure of corporate treasury policies in companies' accounts. A working party is being set up by the ACT, involving the Association of British Insurers, the National Association of Pension Funds and the Accounting Standards Board, to develop guidelines on the appropriate levels of disclosure of corporate treasury management activities.

Mr Hugh Jenkins, of PPM, complained that, in the accounts of many of the largest listed companies, reports on corporate treasury matters are "minimal in most cases", even though the report and accounts is the correct medium for such disclosure.

Only a few UK companies, including RTZ and Courtaulds, describe their treasury activities, including interest rate and currency exposure management policies, in any detail.

The greater degree of interest in treasury matters, coupled with a broader understanding, is widely seen as a positive development for the treasury management business.

"The sophistication of financial management techniques will challenge further the abilities of company directors to keep up with developments in areas such as treasury management and information technology," Mr Roger Davis, head of audit at Coopers & Lybrand, wrote in a recent article in the FT. It is a challenge which, not before time, company directors and others are now trying to meet.

IN THIS SURVEY

Gerald Leahy: aim is to keep the options open

Editorial production: Roy Terry

After Black Wednesday, **James Blitz** looks at foreign exchange

Gut feeling guides decisions

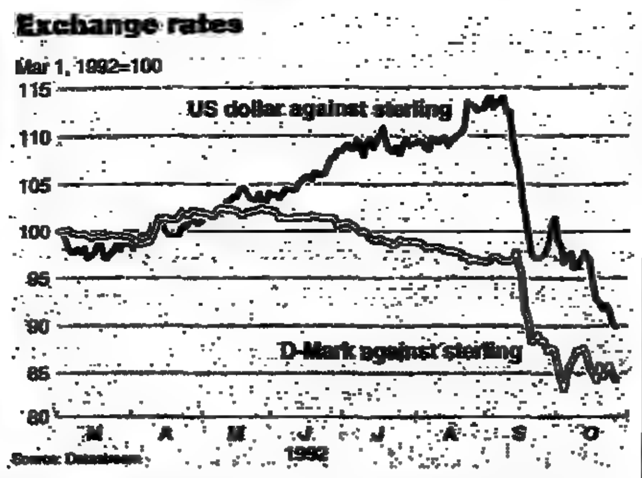
FOR UK treasury managers whose companies trade overseas, the world has suddenly become a more uncertain place.

Until the autumn of this year, corporate treasurers with a large exposure to foreign currencies could afford to be relatively relaxed about the *pound's exchange rate against* the D-Mark and the dollar.

Importers, for example, knew that sterling's membership of the exchange rate mechanism meant that the pound could not fall below DM2.7780 against the D-Mark. Europe's moves towards economic and monetary union also reduced exchange rate volatility as the continent's economies appeared set on convergence.

And then there was Black Wednesday.

Derek Ross: hedging has increased since Black Wednesday



Source: Datastream

Sterling's suspension from the *ERM* on *September 16* was the climax of the worst currency crisis for decades, and was followed by a 19 per cent devaluation against the D-Mark. Now, a 2 or 3 pfennig fluctuation in the sterling-D-Mark rate, which would have been deemed unusual a few months ago, is seen as normal. And the forecasts for the pound's exchange rate next year look gloomy: some City economists predict a fall to $1.20 and DM2.30.

According to Mr Les Halpin, a director of N P Record Treasury Management in Windsor, Berkshire, the floating pound is a hazard for companies which trade overseas. "People are suddenly much more aware of the risks," he says. "The dealings and profits which a company has at any moment can be wiped out in hours, let alone days."

More and more treasury managers are now asking how they can hedge their currency exposure. A survey by the management consultants Touche Ross, showed that 35 per cent of companies had selective hedging cover last year. Interest has grown even more sharply in recent months. "We advise 25 of the FT-SE 100 companies, and quite a large number have increased their hedging activity since Black Wednesday," says Mr Derek Ross, a Touche Ross partner.

Who should do the hedging? And how should it be carried out? Treasury managers need to consider a number of factors.

■ First, they must decide what kind of exposure they *have to* currencies. Specialists divide the risks into two categories.

Companies with "transactional" exposure make sales in foreign currencies or have foreign currency borrowing or investment. These are seen as the prime candidates for currency hedging because fluctuations in exchange rates give rise to real gains and losses in cash terms, and have a direct impact on the profit and loss account.

Sterling's suspension from the ERM was the climax of the worst currency crisis for decades

Those with "translation" exposure have a more difficult judgment to make. The risk to these companies arises when amounts fixed in foreign currencies are given sterling equivalents for accounting purposes. This can change sterling reported values such as consolidated net wealth, altering a company's borrowing capacity or ability to make dividend payments.

■ Second, they must decide what kind of hedging instruments to use.

By taking out a forward contract, a company locks itself into exchanging cash at a given rate at a fixed moment in the future.

The advantage of these contracts is that they minimise risk, and the company ignores any potential losses or gains that would be accrued if, in the meantime, sterling changes its rate.

According to Mr Ross, some companies *find it particularly* attractive to take out these fixed contracts at the moment because UK interest rates have fallen below those in Germany. This means that companies with D-Mark payables will get more D-Marks for each pound. "In certain cases this can prove very attractive," says Mr Ross.

Alternatively, a company buys options. This effectively allows it to place a bet on currency movements by paying a premium to a bank. If an exchange rate moves in an unfavourable direction, the bank is obliged to sell currencies at a more favourable rate.

In the wake of the recent currency crisis, however, option premiums have shot up. "We find that our customers are keener on taking out options now," says Mr Halpin, "but the banks have had problems with options underwriting and premiums have become more expensive."

■ Corporate treasurers must also decide when to manage the currency exposure themselves or farm it out to specialist advisers.

In-house management gives treasurers more security over funds. But foreign exchange management is a highly technical and growing business, and analysts say that it can pose problems for the uninitiated.

"It's very important that treasury managers are not seen to be *operating* in a black box," says Mr Ross. "Decisions need to be taken in line with the changing nature of the business, and in a manner that is comprehensible to executive board members."

Whatever a corporate treasurer *decides*, he or she needs to bear in mind that currency hedging can only provide a short-term breather in the event that exchange rates are permanently realigned.

If, as some economists believe, sterling is undervalued against the D-Mark and should rebound next year, then treasurers can happily hedge the exposure over the next few difficult months.

But if sterling's recent devaluation is not reversed, and the currency stays at around DM2.40, treasurers and board members may be faced with the need to radically restructure their businesses. Companies may need to find new sales markets and new sources of capital stock. A few may have to close their businesses altogether.

Unfortunately, in Britain's current political and economic climate, even the most experienced economists are uncertain where the pound will be in a month let alone a year. For treasury managers, the decision on how to respond to the pound's devaluation may be down to gut feelings as much as anything else.

Katharine Campbell on new products to help manage risks

In search of full protection

MOST corporate treasurers are by now at least broadly familiar with the staple building *blocks of treasury risk management* – with forward rate agreements (FRAs), swaps, caps, and foreign currency options.

So the trick for banks is to devise new combinations of the standard instruments – approaching the elusive goal of the ideal risk management product which is, roughly, full insurance protection, at no cost, with maximum flexibility.

Below are some of the new products available:

■ *FRA's are now widely* accepted as one of the most powerful ways of hedging interest rate risk, so it is no surprise that bankers have experimented with a similar concept applied to the world of foreign exchange. Generically *known as Safes, or synthetic* agreements for forward foreign exchange, these products were first applied in the interbank market some years ago to reduce settlement risk. Treasurers are just getting interested, says Perry Power, director and head of risk management at Mitsubishi Finance International in London.

There are two types of Safe, the exchange rate agreement or ERA which protects the purchaser against a change in the forward foreign exchange spread; and the forward exchange agreement (FXA) which protects against a change in the spot rate as well as the forward spread.

Suppose the pound is trading at $1.55 against the dollar for spot delivery two days from now, and a treasurer wishing to buy pounds for dollars in a month's time is quoted a spread of 65 points, meaning a rate of $1.5435. It may not fit into his strategy to do an outright forward – he may, for instance, as is often the case with FRA users, be hedging a contingent liability. With an ERA or FXA he can protect the spread without exchanging principle, and without using up bank credit lines and so on.

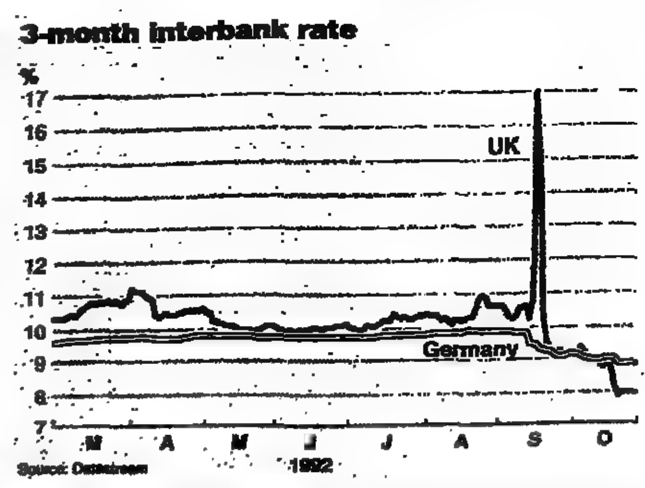
With an ERA he could lock into a spread, say for three months starting in one month's time. Traditionally *that same effect could only* be achieved by a so-called forward forward, buying pounds for dollars in four months' time and selling pounds for dollars in three months.

An FXA is more like an outright forward. The treasurer gets or gives the difference between the FXA rate agreed for, say, an outright 3-month rate in one month's time and the actual 3-month rate in a month. So if the 3-month outright is at $1.55, and the *3-month FXA was $1.5435*, he gets or gives the difference, depending on whether he is a buyer or seller of pounds.

■ Differential or "diff" swaps are designed to exploit the inverse relationship between two yield curves – until *recently for instance* between the negatively sloped D-Mark curve and the positive US dollar interest rate curve.

A US dollar-based investor could index the coupon of his dollar floating rate note to D-Mark rates. So instead of receiving, say, a coupon paying low dollar Libor rates, he can still receive dollars, but calculated instead using the D-Mark Libor rate – 8.5 per cent, say, minus a spread of 2 per cent. The investor hence incurs no foreign exchange risk, but pays a premium, included within the 2 per cent deducted. The FRN issuer, meanwhile, will not want to incur a D-Mark liability, and so enters into a swap with an intermediary bank – which assumes the foreign exchange rate risk on the differential between US dollar Libor and D-Mark Libor.

Another play on the yield curve: the investor hopes US dollar rates will not rise as quickly as the yield curve suggests or that D-Marks will not fall as quickly. If everything happens as the yield curve predicts, he gets no net saving – and runs the risk that rates move higher in the US and lower in Germany than expected, market moves that would actually cost him money.



Source: Datastream

■ A newish twist among an array of interest rate products is the swap where Libor is set in arrears, a product well suited to an environment with a steeply positive yield curve, as has been seen in the US. *It* is used by borrowers of fixed rate dollars who are swapping back into floating rate for a portion of the term to take advantage of short-term rates. The libor-in-arrears swap gives added exposure to variable rates. Normally interest payments on a swap, as on other instruments, are set in advance and paid in arrears, whereas in this case they are set in arrears as well. So, if the interest period falls quarterly, and interest is due between March 31 and June 30, a treasurer would make the three-monthly payment on June 30 at the Libor rate on that day rather than at Libor on March 31. This essentially appeals to those who do not believe that rates will rise over the term of the swap as much as the slope of the yield curve implies. "It is not a structure for the timid," explains John Walker of J C Rathbone Associates, the financial risk consultants.

■ Another product J C Rathbone, among others, has been developing recently is the combination of a fixed rate swap with a floor. This is a risk-averse structure that will work with either a positive or negative yield curve.

Essentially, it offers borrowers the chance to fix a rate but also to benefit if rates stay the same or fall. The procedure, in a recent example, would be for the treasurer to fix his 5-year dollar borrowing cost at 6.05 *per cent*, and simultaneously to buy a floor 50 basis points below that, at 5.5 per cent. This would cost 3.14 per cent, says Mr Walker. Current 6-month Libor is 3.56 per cent, so he is giving up 2.5 per cent immediately, but, because of the floor, *he will achieve* a reduced cost of borrowing if rates fail to rise up to 5.5 per cent.

For instance, if in the first six months rates stay the same, he will receive an immediate rebate of 1.99 per cent; if at the next payment date interest rates have edged up to 4 per cent, he still receives 1.55 per cent back.

Another dimension of flexibility is that, if he wants to avoid paying the premium upfront, he may negotiate with the provider of the instrument to pay the premium over time, thus increasing the fixed rate by 0.72 per cent.

The danger is rates rise more quickly than implied by the shape of the yield curve, in which case the borrower will not recover his premium – though he remains protected by the swap which will have increased in value.

With a negative yield curve, the process is similar, except the treasurer gets his benefit not immediately, but when rates start to go down.

Sara Webb examines banking relationships during a recession

Bilateral route finds favour

WHAT A difference a recession can make. While the 1980s were characterised by cheap and easy access to bank loans, the early 1990s will probably be remembered by UK corporate treasurers as a time of high borrowing costs and tighter credit. With the change in the economic climate, many companies are being forced to re-examine their banking relationships and the scale of their bank borrowings.

Looking back on the 1980s, many corporate treasurers would agree that they were spoilt for funds. The banks competed fiercely for new business, with the result that companies were able to borrow at very fine margins. Indeed, the low pricing on loans and standby credit facilities often encouraged companies to set up credit facilities exceeding the amount they actually required.

One of the most popular *forms of borrowing* was the Mof – or multi-option facility – which was prevalent in the late 1980s. A Mof consists of two parts: a committed portion (or backstop) where a bank syndicate is committed to lend at an agreed margin over the London *interbank* offered *rate*, as well as an uncommitted part (called the tender panel) where the banks compete to lend money, usually over the short term.

Competition between the banks was so great that companies could obtain financing at margins of between $\frac{1}{16}$ to ⅛ of a percentage point over Libor. "There were plenty of corporate treasurers who thought it was a wonderfully cheap way to obtain money even if they didn't need the funds at the time," reflects one UK banker.

However, times have changed. For a start, the pricing on loans has increased substantially since the late 1980s as the international capital adequacy requirements agreed by the Basle Committee have forced international banks to adopt a more selective approach to lending. A rash of corporate disasters – including such names as Polly Peck, Brent Walker and the Maxwell empire – has prompted bankers to pay closer attention to the creditworthiness of their customers. Many banks are now placing more emphasis on their loan covenants, with the inclusion of tighter financial ratios – particularly those concerning interest cover and gearing.

Average spreads on new loans have risen from about 50-60 basis points in 1989-1990 to around 80 basis points in 1992, according to the recent OECD report, Financial Market Trends, June 1992. Bankers claim that the overall pricing – including spreads and fees – has risen two to three times since the 1980s.

The increase in pricing has forced corporate treasurers to consider two points: whether they need to replace in full those loans and credit facilities approaching maturity, and whether there are cheaper ways of obtaining bank loans.

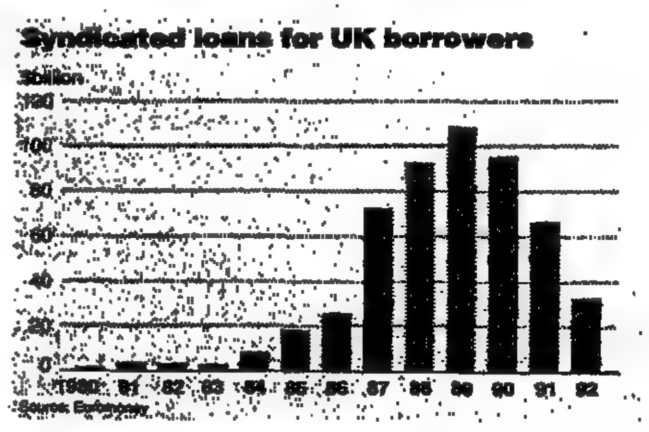
On the first point, bankers agree that many companies borrowed far more money than they needed when the pricing on loans was low. "In many cases, the companies didn't need the money, they just did Mofs because they were so cheap. Companies often borrowed between 30-70 per cent more than they needed, so when they come to renegotiate the credit facilities, they are *likely to borrow far less*," says one banker. Another adds: "We've seen plenty of companies scaling back their borrowings as their Mofs mature – after all, they ask themselves 'Why spend that amount on borrowing when we don't need *it?*'"

In addition, the debate among corporate treasurers and their bankers is now more likely to focus on the advantages of bilateral loans over syndicated credits. Several companies have chosen to refinance their borrowings using a series of bilateral loans.

BP and Reckitt & Colman have followed this route: when BP refinanced its borrowings last year, it cut back the amount of the loans and the number of banks involved.

Choosing the bilateral route can mean a lower overall borrowing cost for the company. One banker cites the following example: "We were approached by a company which wanted to refinance its loans. The company told each of its relationship banks to quote their terms for a three-year loan of between $50m-100m. It then borrowed from those banks which offered the most favourable pricing, so that instead of setting up a large syndicated credit, it had a series of bilateral loans, where each of the participating banks had a separate bank agreement and where the pricing varied slightly from bank to bank."

"The bilateral route continues to be attractive to companies because it gives them much more clout over their banks and they can get finer terms that way," says one of the European banks in London.



Source: Euromoney

In addition to obtaining finer pricing, some companies see the bilateral route as a way of spreading out the debt maturity dates. "With a syndicated credit you have one loan and one maturity date – but not every company wants to have *$500m maturing on the same* day. Instead they may prefer to have bilateral loans which mature in stages," points out one UK banker, although he adds that the borrower needs to have a well-organised treasury department to deal with the administration of a *complex array of loans*.

Bilateral loans do have their disadvantages. It can prove much more difficult to raise a large amount in total using a series of bilaterals. Bankers argue that if a company needs to borrow a large amount all in one go, the syndicated loans market still provides the easiest means of doing so, but while pricing remains high, the level of corporate borrowing is likely to remain relatively subdued.

Tracy Corrigan looks at funding

New openings for finance

UK CORPORATES have traditionally relied heavily for funding on the well-developed UK stock market. When stock market conditions prove unfavourable, as they have recently, or when companies want to borrow long-term funds for capital investment, the options available may prove rather narrow.

Unlike some other markets, there is not a developed UK domestic corporate bond market. While there is a small, expensive but accessible market for very long-dated secured funding, unsecured funds must generally be raised in the international capital markets or from banks.

Only the largest, top-rated companies can be sure of accessing the international bond markets when they need funds. They do not depend on the health of any single market, since their credits are acceptable in a wide range of currencies, and they can then swap the proceeds into the currency required.

Bond financings ran at record levels for the first half of this year. In the past few years, bond markets have mostly flourished, allowing companies, especially in the US, to refinance expensive debt acquired during the 1980s, often through takeover activity.

But the collapse of European bond markets following the Danish rejection of Maastricht in the June referendum prompted a change of sentiment among investors. Subsequently, the availability of investment funds for corporate bonds has come under further threat. Heavy losses in the foreign exchange market in September by central banks attempting to prop up their currencies has left a number of European sovereign borrowers with higher funding needs. These sovereign borrowers could squeeze out corporate borrowers, which are normally weaker credits. The expectation of higher volume has already caused yield spreads for sovereign paper to widen, relative to the comparative government bond market. This has also pushed out corporate bond yields.

Corporate borrowers are finding new opportunities, however, in the Euro medium-term note (MTN) market, which is expanding rapidly.

Outstanding paper in the Euro MTN market rose from \$13bn at the end of 1990 to \$28bn at the end of 1991, according to Webster's Database. By the end of this year, it could reach \$50bn.

The flexibility of the MTN market – which works on a principle of matching issuers' and investors' needs – has proved appealing to corporate borrowers. Although they still make up a relatively small part of the market, they are a key target for banks keen to increase the size of the market.

The borderline between Eurobonds and Euro MTNs has become increasingly vague, as more borrowers set up Euro MTN programmes under which bonds and notes can be issued. The advantage for the borrower is that such a structure creates substantial cost savings.

For weaker credits, the stringent demands for strong ratings in public bond markets have edged some borrowers to the private placement market. While interest from Japanese leasing companies, the mainstay of the market in the 1980s, has dried up due to the problems in the Japanese financial system, interest from US institutions has grown. An increasing number of UK companies have issued debt in the US market under the Securities & Exchange Commission's rule 144a, which allows unlisted securities to be traded by authorised institutions such as insurance companies. These institutional investors are hungry for high-yielding corporate paper, as a result of the demise of the US junk bond market combined with the climate of low US interest rates.

Only the largest, top-rated companies can be sure of accessing international bond markets when they need funds

After a strong start to the year, allowing companies an opportunity to rebuild their capital base, equity markets have also become more difficult to access, again, especially for weaker credits. For example, GPA, the Irish aircraft leasing group, was forced to cancel its \$800m international equity offering, when it became clear that there was insufficient investor demand, due to concerns about the company's future. Some large, successful deals, such as Wellcome's sale of 288m shares, absorbed surplus demand, leaving weaker names to struggle.

The syndicated loans market is in a period of long-term decline. The volume of syndicated loans in the first half of the year amounted to \$164bn in the first six months, 32 per cent down on the first half of 1991, according to Euromoney.

Banks are under pressure to conserve capital to meet new capital adequacy requirements under the Basle accord, which come into force in January 1993. The nature of the capital requirements, which gives a zero-risk weighting to sovereign debt, has further discouraged corporate lending. A number of recent bad experiences have made banks increasingly wary of lending to companies which could face financial difficulties.

Companies themselves are increasingly wary of taking on too much short-term bank debt, having seen the fate of a number of companies which relied too heavily on short-term financing. In addition, more expensive pricing has deterred companies from setting up large facilities which they may not need to use. Many companies are not renewing cheap Multi-Option Facilities (MOFs) set up in the mid-1980s, since pricing has become prohibitive.

However, in some cases syndicated transactions are being replaced by bilateral agreements (direct lending by a single bank to a company). This trend has been exaggerated by a growing desire among companies to create stronger banking relationships.

The general rule seems to be that plenty of financing is available to those borrowers who do not need it. The lack of a domestic corporate bond market allowing smaller or weaker credits to raise funds from domestic institutions, and of a credible banking market, means that many companies have to rely on expensive and uncertain short-term financing.

The proportion of swaps linked to new issues has been declining, says Tracy Corrigan

Vital tool in minimising costs

THE \$4,000bn global swaps market has become a vital tool for corporate treasurers in minimising funding costs and managing exposure.

The availability of interest rate, currency – and now commodity – swaps to hedge exposure or match assets and liabilities has been an important factor in changing attitudes to corporate treasury management.

"It is no longer acceptable for companies to attribute poor performance or results to market movements," according to one commodity swaps trader.

A swap agreement is an exchange of liabilities between two (or more) counter-parties. Although many swap market participants are keen to point out that the market is used for hedging and not speculation, decisions over swap transactions often require a view on the market. But a decision not to use such instruments also expresses a view on market movements.

In the case of interest rate swaps, for example, if a treasurer believes interest rates are rising, he may wish to swap floating-rate for fixed-rate liabilities.

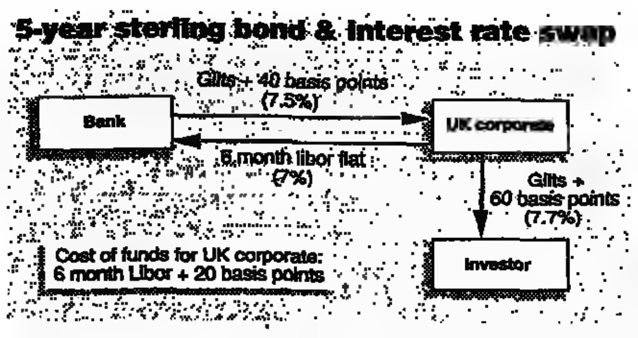
A swap agreement is often linked to a financing in the debt markets, since the form in which a particular company can most easily raise funds is not necessarily best suited to the company's needs. For example, a German firm may be able to raise relatively cheap funds in D-Marks, while it requires dollars to fund a subsidiary in the US. If it can find a US firm that requires D-Mark funds, the two can swap their liability payments to their mutual advantage.

But the proportion of swaps linked to new issues has been declining, due to the erosion of arbitrage opportunities as disparities between markets break down.

In earlier years, because retail investors, once the mainstay of the Eurobond market, were unsophisticated in assessing the value of bonds, companies could often issue fixed-rate bonds and swap the proceeds into floating-rate funds at a level substantially below the London interbank offered rate. Increasing participation by sophisticated institutional investors has contributed to a narrowing of swap spreads.

In addition, the growing sophistication of swap dealers themselves means that any opportunities are swiftly arbitraged. "By its nature, arbitrage removes the pricing gap that was its raison d'être. I don't believe there will be a return to the sort of arbitrage opportunities available in the past," according to Mr Malcolm Basing of Swiss Bank Corporation, who chairs the International Swap Dealers Association.

5-year sterling bond & interest rate swap



Swap spreads – the differential between the yield on the government bond and on the comparable swap – have been at historically tight levels for some time, making it almost impossible for most borrowers to swap fixed-rate funds, except at margins often well above Libor.

However, tight swap spreads are also a function of present views on interest rates, and of supply and demand, so changes in market trends can prompt a widening of spreads. For example, US dollar swaps spreads recently widened sharply, as a result of a change of view on US interest rates, now at a cyclical low. Expectations that US rates are set to rise soon prompted a sudden proliferation of fixed-rate payers – that is, counterparties keen to lock in fixed-rate funds while interest rates are low. This created attractive swap opportunities for companies wishing to obtain floating rate funding.

Similarly, the recent fall in UK interest rates prompted a rash of activity in the sterling swaps market, as companies switched floating-rate liabilities into fixed-rate liabilities.

New techniques allow companies to tailor transactions to their precise needs. For example, some companies have swapped into floating-rate while at the same time buying caps, which limit the risk of rising interest rates.

Attitudes in the corporate treasury are also shaped by the nature of a company's core business. For example, if a business is highly negatively correlated with interest rate movements, such as in the building industry, there is a strong need to protect the business from rising interest rates. On the other hand, the company may be less concerned about benefiting from falling interest rates, since the business itself is likely to flourish in a low interest rate environment.

Malcolm Basing: arbitrage opportunities limited in future

A business less vulnerable to interest rate movements may be more determined to benefit from falling interest rates, and so may keep a higher proportion of its borrowings in floating-rate form.

While the proportion of new issue business has waned, new participants have entered the market, as a broader range of companies became familiar with swap market techniques.

Companies, which used to be concerned merely with finding cheaper ways of raising primary debt, are much more attuned these days to the ongoing management of their liabilities, and frequently use the swap market to adjust their interest rate exposure.

"The advantage of the swap market is that it allows you to adjust exposure profiles without having to undo the underlying transactions," said Mr John Grout, director of Treasury at Cadbury Schweppes.

Similar techniques using commodities now allow oil companies – or transport companies which need to consume large amounts of oil – to reduce their exposure to price changes. The size of the commodity swap market has grown, according to estimates, from \$3bn in 1988 to \$10bn before Iraq's invasion of Kuwait in 1990, and is now believed to total \$40bn. As much as 80 per cent of commodity swaps business is believed to consist of oil-related transactions.

The market in short-dated currency swaps is also very active. Many companies use the market to hedge themselves, when day-to-day transactions create currency exposure. For the most part, though, companies do not hedge translation exposure, a practice which is not always viewed favourably by shareholders.

Liquidity management is at the heart of the treasurer's role

Cash is now definitely king

"In the end, accounting and investment all comes back to cash. Whereas manufacturing profits is relatively easy, cash flow is the most difficult parameter to adjust in a company's accounts."
Terry Smith, Accounting for Growth

IF EVER there was doubt on the matter, cash is now definitely king. The recession has forced investors to look carefully at the cash flow of companies. Companies have responded by improving cash flow and squeezing working capital.

For company treasurers, this means getting back to basics. For all the attractions of derivative financial products and the lure of the capital markets, liquidity management is at the heart of the treasurer's role. This is unlikely to change. Indeed, as the economy pulls out of recession, the cash position of many companies is, if anything, likely to worsen.

There have been hard lessons along the way. Polly Peck reported a £160m pre-tax profit in its last full year of existence, but a glance at the cash flow statement showed ballooning indebtedness. Thankfully, new accounting standards have laid down strict guidelines for company cash-flow statements. Armed with comparable information for all UK companies – and the hard lessons of recession – investors are not likely to ignore the role of cash.

Financial Reporting Standard 1 (FRS1), which came into effect this year, makes some significant advances over earlier "flow of funds" statement – which often simply involved a new presentation of information found elsewhere in the accounts. FRS1 demands new information and makes sure that companies show cash flow separated into five distinct areas: operating activities, return on investments and servicing of finance, investing activities, financing and tax. It also strictly defines cash or cash equivalents as instruments with a maturity date of less than three months.

Some companies are going even further than FRS1 to show the real nuts and bolts of cash flow. Wellcome, the pharmaceuticals company, is including a cash statement in its report and accounts which follows the form of its internal management accounts.

The accounting standards may have changed, but the essence of cash management within companies is the same as ever. The foundation of cash management is the cash-flow forecast, done annually by most companies and then honed by monthly and weekly forecasts. Really efficient cash management involves monitoring daily flows, so there is no unnecessary use of overdraft facilities, for example, while surplus cash is sitting elsewhere in the business.

Perhaps the biggest policy issue for companies is whether cash management should be centralised within group treasury or devolved to operating subsidiaries. Like the decision whether to organise the treasury as a cost centre or profit centre, the choice is usually a matter of corporate culture. The cost savings of having a centralised cash management operation must to be measured against the risk that cash management disciplines will be lost in operating subsidiaries.

Companies overcome the problem in a variety of ways. The most common approach is to ensure the treasury treats operating subsidiaries as if it were a commercial bank – charging them at cost of funds for credit and giving credit when the current account is in surplus.

The recession, though, has brought new challenges. The pressure on companies to squeeze working capital is intense. This is beyond the remit of the treasurer alone, involving real operating efficiencies such as reducing the turnover of stock, and collecting debts earlier.

Other than the mechanics of monitoring cash flow, the treasurers' key concern is to have external finance available to cope with an unexpected cash squeeze. For such unforeseen eventualities, secure bank credit lines are the answer.

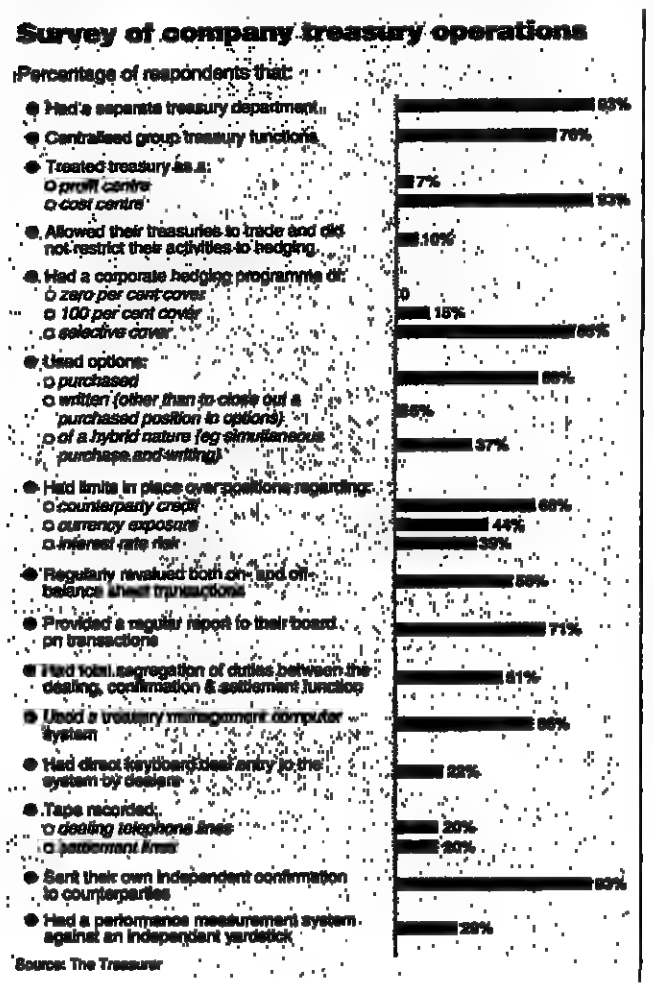
This is one reason why complex multi-option banking facilities are out of favour with many corporate treasurers. The structure, which involves a core committed loan facility topped up by an uncommitted panel of lenders, left some companies – Laura Ashley is the best example – starved of funds when they most needed an injection of cash.

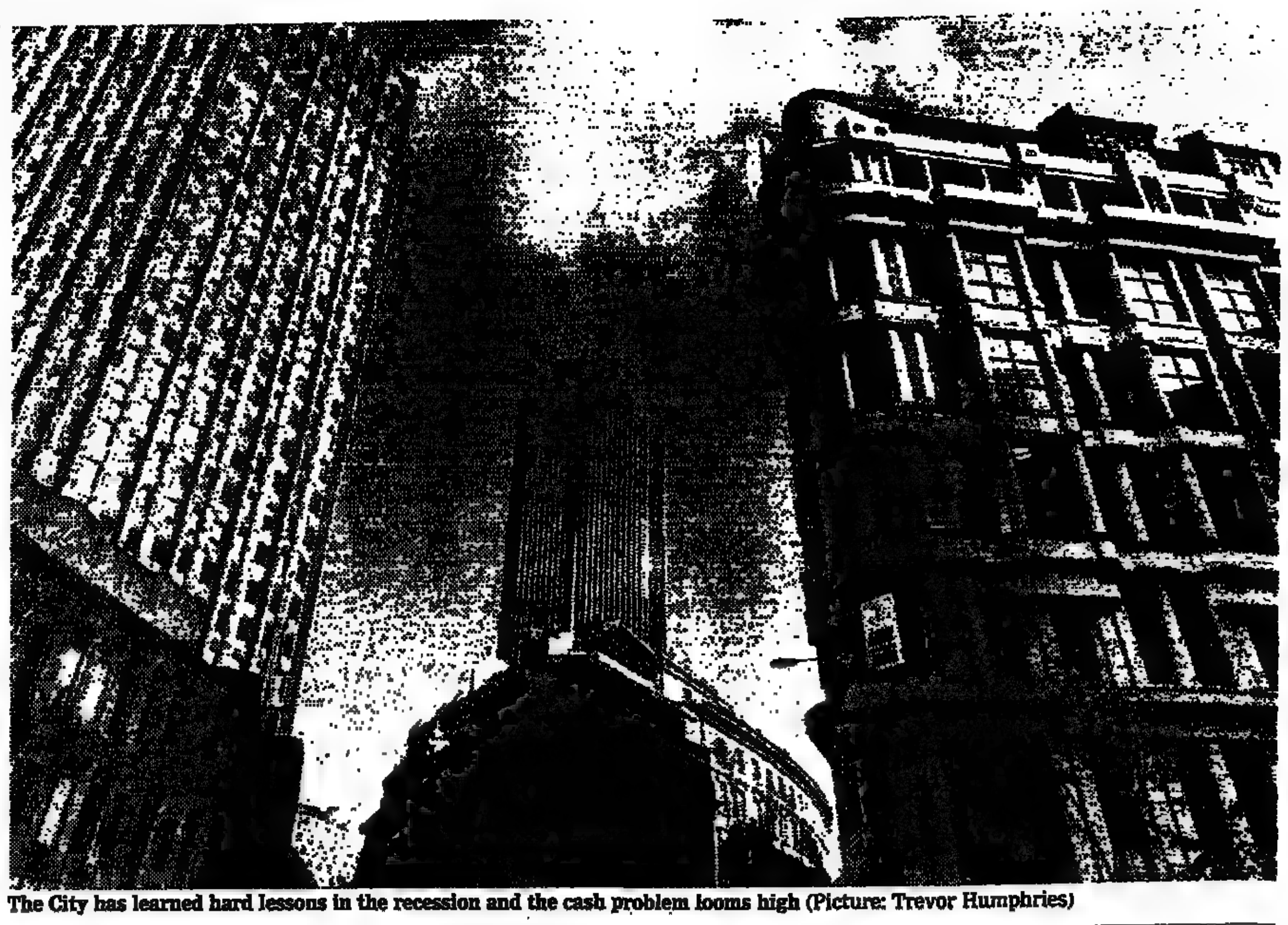
The recession has also brought some hard lessons for companies with a pile of surplus cash to manage. The deteriorating credit quality of banks – although the collapse of the Bank of Credit and Commerce International belongs perhaps in a different category – has raised the issue of counterparty risk to a prominence undreamed of few years ago.

For example, many corporate treasurers invested spare cash in variable rate notes issued by financial institutions. The notes carry a long maturity but were "re-marketed" or auctioned every three months to offer investors a cash proxy. This worked well until the credit quality of some issuers was called into question. Then the re-marketing process seized up because sellers unable to find buyers and the notes became relatively illiquid.

Against this, lower interest rates mean that simply holding cash on deposit is a less attractive option. Cash-rich companies such as Associated British Foods, which has a long-standing cash pile of around £500m, will have to work hard to prevent lower interest rates translating into sharply lower profits.

Simon London





The City has learned hard lessons in the recession and the cash problem looms high (Picture: Trevor Humphries)

Ways of managing the risk managers, assessed by **Simon London**

A long, hard look at controls

THE currency trading losses which hit Allied Lyons two years ago caused many UK companies to take a long, hard look at the risks and controls on their own treasury operations. While most finance directors vigorously denied that the scale of losses could be repeated at their company, the episode opened a wider debate about the best way to manage the risk managers.

The most obvious division is between companies which organise treasury as a cost centre and those which see treasury as a discreet profit centre – making a visible contribution to the bottom line.

Among the best-known profit-centred treasuries is Abbey National Treasury Services (Ants), which was set up as a separate limited company when the former building society converted to public status. Last year Ants made a pre-tax profit of £62m.

A common objection to the profit centre approach, though, is that the "profit" contribution of a treasury operation can be subjective.

"What is the market cost of foreign exchange to a Courtaulds subsidiary? The whole issue of transfer pricing of treasury products within a group like ours is highly subjective," commented Mr James Wrangham, Courtaulds treasurer. Partly for this reason, the Courtaulds treasury is organised as a "limited profit centre" which aims only to cover its costs.

Another contention is that it is easier to set the right culture within the treasury team if the department is organised as a cost centre which provides a service to the rest of the group. Otherwise, it is argued, treasury can become an internal monopoly, more concerned with its own profits than its contribution to the group.

But the decision whether to make treasury a cost centre or a profit centre is by no means the end of the risk control process. A profit-centred treasury will not necessarily engage in speculative risk-taking. Equally, a cost-centred treasury can still make significant losses if it is allowed to trade in an uncontrolled manner.

However treasury is organised, then, risk control starts much higher in the company hierarchy – ideally at main board level. For example, both the treasury and operating subsidiaries are set clear objectives which reflect the company's broader attitude towards risk. For example, some companies – Courtaulds among them – have a policy that all known cash flows should be hedged. But it does not encourage forward hedging of anticipated cash flows, which it sees as a speculative activity. Subsidiaries are under orders to be as risk averse as possible, so anticipated cash flows which experience shows may never materialise – due to slippage in large contracts; for example – are not hedged.

This attitude is not the rule, however. A survey by Touche Ross Management Consultants found only 15 per cent of large companies held to a policy of hedging all known cash flows. The majority hedge selectively, depending on the perceived risks. This is an area where the distinction between hedging and speculating is by no means clear-cut. For example, companies which hedge cash flows selectively must decide what to hedge and what to leave uncovered. There is clearly an element of taking-a-view on the direction of the markets in this decision-making.

When a company has set broad policy guidelines, though, lines of reporting and conventional financial controls become vital. A big treasury operation such as Tate & Lyle, for example, measures all its outstanding positions daily, has a specialist back-office to handle trade confirmations, and tape-records all dealers' telephone conversations just like a small bank.

Volume of hedging greatly in excess of the amount of underlying cash flow is a sure sign of speculative trading. Setting position limits for dealers is an obvious place to start. These often limit the size of individual transactions and include cumulative limits for each dealer and the treasury team as a whole. Many treasuries also have counterparty limits to minimise the risk of default if a bank or securities firm fails.

Tate & Lyle is an example of a company which runs its treasury as a profit centre, but with the aim of increasing management control rather than encouraging speculation. As a commodities-based company, T & L already has something of a trading culture and its foreign exchange dealers are allowed to trade within tightly defined limits. The aim is to sharpen the dealers' sensitivity to market movements.

Controls often extend to the types of financial instruments a treasury operation is authorised to use. Allied Lyons' involvement in writing currency options – which left it open to unlimited risk when the currency market turned against it – is an example of the risks that can arise from certain types of transaction.

But different instruments offer different balance of risk and reward to the company. Buying a currency forward offers a cast-iron guarantee of the rate at which a cash flow can be exchanged. But if the market moves in the company's favour, any potential rewards are lost. Using currency options presents a different risk-reward profile – and a different cash cost for buying the instrument. Leaving cash flow completely unhedged produces a different result again.

One positive result of the Allied Lyons affair is a greater degree of disclosure by companies of exactly what their treasury management policies are. An increasing number of annual reports contain a passage on treasury policy – including which instruments are used and which cash flows are hedged. This level of disclosure could, in itself, act as a management control by making treasury publicly accountable.

TAXATION

Focus on draft legislation

DRAFT LEGISLATION and newly-emerging corporate practices have increased the demand for advice on the tax implications on treasury management to unprecedented levels in the past few years.

Emma Lubbock, lead partner in the capital markets group of Price Waterhouse, the accountancy firm, says there has been tremendous recent change. "It is a very exciting and rather uncertain time at the moment," she says. "Lots of companies are focusing on the area now."

In the UK, attention is particularly concentrated on two proposed changes to the law concerning treasury management activities being prepared by the Inland Revenue:

- The taxation of foreign exchange gains and losses; and
- *The taxation of financial* instruments.

In addition, there are a number of draft EC directives which have implications for corporate treasurers, including the parent-subsidiary directive concerning the payment of interest between groups of companies.

More widely, there are emerging trends in the location and structure of corporate treasury departments in response to variations in tax incentives across national borders.

Ms Lubbock gives prime attention to the Revenue's planned changes to the taxation of foreign exchange gains and losses. "It is one of the most significant changes in recent years," she says.

Over the years, tax legislation has fallen behind developments in financial and risk management techniques. The Revenue launched an extensive consultation exercise to rectify some of the contradictions on foreign exchange instruments which ended in January last year.

A number of significant changes were introduced as a result, and now practitioners are waiting for the draft legislation with full details, which is timetabled to be included in next spring's finance bill. It could thus come into force during 1993.

In essence, the legislation would subject to corporation tax gains and losses on foreign exchange differences incurred on capital borrowings overseas.

At present, any realised gains can be taxed but losses cannot be offset against them. "There has been a huge black hole created by the anomalies," says Ms Lubbock. "Foreign *investors just think the UK* system is daft. It is so illogical."

The case settled in 1989 against Woolworth, the high street retailer, raised just one instance of the problems with the present position. The company borrowed SFr50m ($36m) in two loans in 1971 and 1972 to be repaid after five years.

Exchange transactions gave rise to a loss of £11.4m, which the company claimed as a deduction in computing its profits. The courts found in favour of the Inland Revenue, which argued that the losses were on capital account – even though the loan was to generate short-term cash to stock the retailer's shelves before Christmas – and hence not allowable.

Ms Lubbock argues that the mooted changes "will not be universally welcomed". Not only will new difficulties

Continued on next page

TREASURY MANAGEMENT 5

Richard Waters investigates the treasury operations of banks

Gaps in information on markets

THE darkest hours for bank treasurers have traditionally come from big bets that went wrong. They have been the bets of individual traders who have been allowed to exceed their trading limits, leading to losses like that in Lloyds Bank's foreign exchange department in Lugarno in the 1970s. Or they have been the bets of entire banks, such as Midland's disastrous punt on UK interest rates three years ago.

Now, there is another kind of loss just waiting to happen. It stems from the difficulties of managing the increasingly complex financial exposures that banks face, largely as a result of their involvement in a broad range of derivative markets – markets which were created, ironically, to help banks, corporate treasurers and institutional investors manage their exposures better.

The Bank for International Settlements, the central bankers' club, carried out extensive interviews with 63 of the biggest players in these markets earlier this year – 55 of them banks. Its conclusion, published earlier this month: there are serious gaps in the information about and understanding of the new financial markets. "Market participants, their self-regulatory bodies and central banks should set a high priority on deepening and broadening collective understanding of these markets," it says.

The extent to which banks have moved to limit their exposures varies from institution to institution. "Some are more cognizant of the risks than others," says the BIS. "There is no single agreed best practice and, at many firms, significant gaps remain between the desired capabilities of risk management systems and the systems actually in operation, reflecting in most cases the significant costs involved in implementing them."

To operate effectively in the markets requires a "substantial and continuous investment in people and systems", it adds.

Most banks have now isolated risk management as a separate discipline within their treasury departments. Barclays, for instance, divides its treasury into liquidity management, capital funding and risk management.

According to the BIS, most also treat risk management as a senior management concern. But many differences in approach and style remain. Some, for instance, try to control all risks centrally – an expensive and difficult process to follow. Others prefer to leave it to managers responsible for particular geographic or product areas.

The hefty spending by banks on risk management has been put to the test in recent months – and, judging by the grumbling from some senior bankers, has been found wanting. The volatility in European financial markets caused by pressures within the European exchange rate mechanism was greater than had been allowed for in some banks' risk management models.

A still more serious problem was the lack of liquidity in many markets as the crisis deepened in mid-September: any bank that was trying to hedge its exposures as it went along was suddenly faced with an inability to trade until the dust had settled. That greater liquidity risk is one of the biggest new exposures faced by bank treasurers.

Others that are highlighted by the BIS include settlement risk (the danger that a clearing house will fail) and credit risk (the growth of off-balance sheet business makes it more difficult for banks to assess the credit-worthiness of their counterparties in financial markets).

Concern about credit has led to increasing concentration in the markets, as treasurers have chosen to deal only with highly-rated counterparties. That concentration could itself potentially cause problems, since the failure or withdrawal of any big financial institution from the market would have far greater impact on banks at large.

It is as well to remember, though, that while new risks have emerged, the old ones remain. Adam & Co, a small Scottish bank, lost £21m – twice its capital – earlier this year from ill-judged speculation by two of its foreign exchange traders in currency futures. The traders hid the true picture from their managers and took ever-bigger risks in an attempt to make good the losses. The markets may have changed, but the risks remain the same.

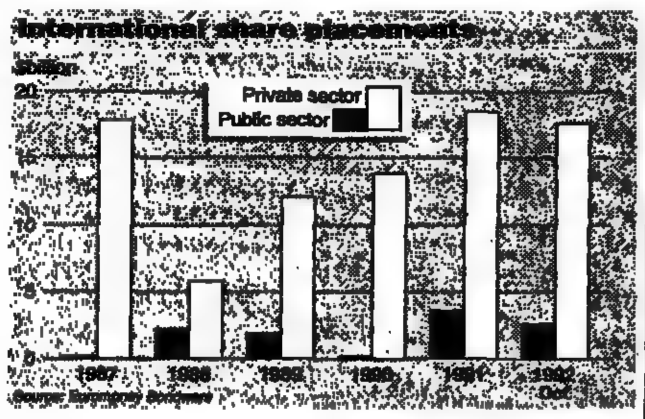
Meanwhile, recent sharp swings in currency markets have posed other problems for the treasurers of banks operating internationally. As currencies move, so the value of assets denominated in foreign currencies move when translated back into each bank's domestic currency. That can cause problems for any bank whose capital base does not match the currency composition of its assets.

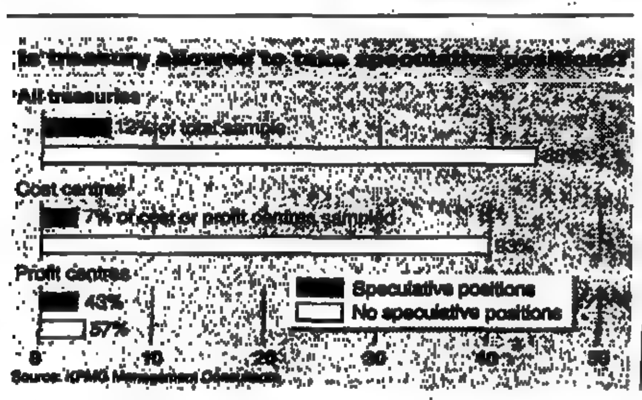
The long-anticipated rise of the US dollar potentially causes the biggest problems. Any non-US bank with substantial dollar assets has seen its balance sheet inflate, in domestic currency terms, as the dollar has risen. Against sterling, for instance, the dollar jumped from $2 to the pound in the summer to around $1.53.

If banks do not also have a substantial part of their capital in dollars, then their all-important capital/asset ratio will have declined.

Matching capital to assets to prevent this risk may not be easy to do. Most foreign banks' dollar capital counts only as "tier 2" under the Basle capital adequacy accord, and the rules stipulate that tier 2 capital cannot exceed tier 1. So, while the rise of the dollar may have inflated tier 2 capital, it will have done little for the top tier, potentially causing banks a problem.

This can be an expensive risk to cover. Simply buying dollars to include in tier 1 causes tax problems. One alternative, explored by Barclays and National Westminster, has been the use of dollar-denominated preference shares which would count as tier 2 but would be convertible into tier 1 when needed by the bank. Both banks have filed shelf registrations in the US to issue such instruments, though neither has yet done so.





Focus on draft legislation

Continued from previous page
emerge from the legislation, but many companies have structured their operations in the light of existing rules. "In 200 years' time, the changes may be for the better," she says.

In the rather shorter term until the full details of the new law are released, Price Waterhouse is advising its clients to avoid committing themselves to long-term structures which are likely to be affected.

The second crucial legislative change concerns financial instruments for hedging interest rate risks, which do not at present qualify for tax relief. The proposals will tax payments and receipts of these instruments as income.

The proposed changes are taking longer to emerge than was originally expected, and draft legislation appears to have been pushed beyond Christmas, so that it may not appear in the Finance Bill until 1994.

Meanwhile, in the European Community, Ms Lubbock says legal changes are likely to be somewhat slower. While rapid progress is being made on the harmonisation of value-added tax, reform of direct taxes – including those on corporations – is moving at a far slower pace.

Some fundamental change in location and practice is also taking place against the backdrop of tax restrictions. "People are thinking about European regional structures and management across borders," says Ms Lubbock.

She stresses moves towards the centralisation of treasury functions, the enhancement of treasury as a separate specialist function, and the emergence of offshore operations.

Historically, treasury management was left to the finance director, who often delegated the job to local subsidiaries in different countries, each using its own banks with little co-ordination.


Emma Lubbock: the anomalies have created a huge black hole

Now, she argues, the development of better systems, the emergence of more sophisticated treasurers and the need to achieve cost-savings, is making its mark. "If you ignore the tax problems, they may wipe you out," she says.

Tax incentives for headquarters' operations including treasury management have led a number of companies to establish offices in Belgium and the Dublin docks.

Other popular locations include Luxembourg, which recently introduced a new holding company tax regime, and the Netherlands, where legislation is amenable to long-term financing operations.

She is more sceptical of the use of true offshore tax havens, such as the Cayman Islands. While there may be no tax levied in the location, payments made into the location are likely to be taxed at source. The only exception is when there are double taxation treaties – which is rarely the case for these locations.

Ms Lubbock says there may need to be different structures to reflect the tax implications of the different roles of treasury departments: day-to-day management on one hand, and long-term financing needs on the other.

But she also recognises the importance of pragmatism. "Tax planning is great, but you've got to do something that is acceptable to the people and the culture of the firm," she says. "It has to make commercial sense."

Andrew Jack

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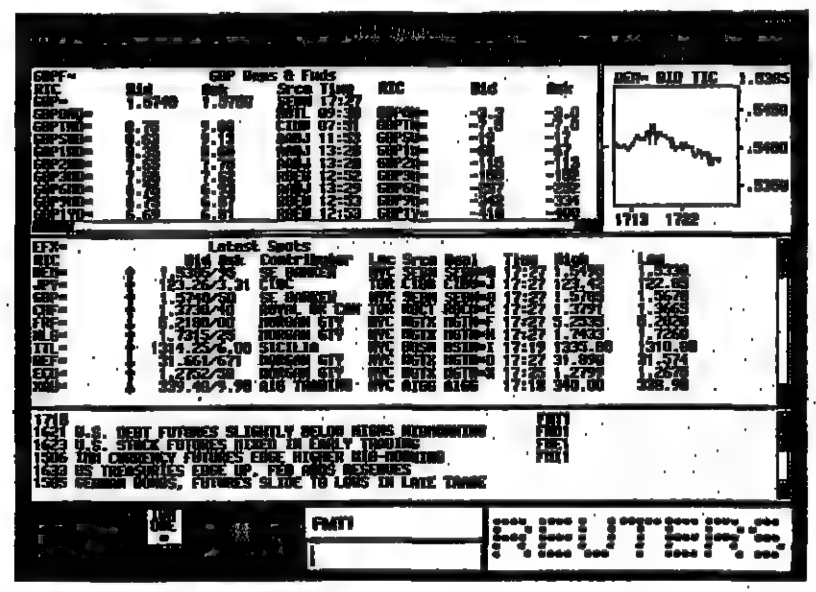

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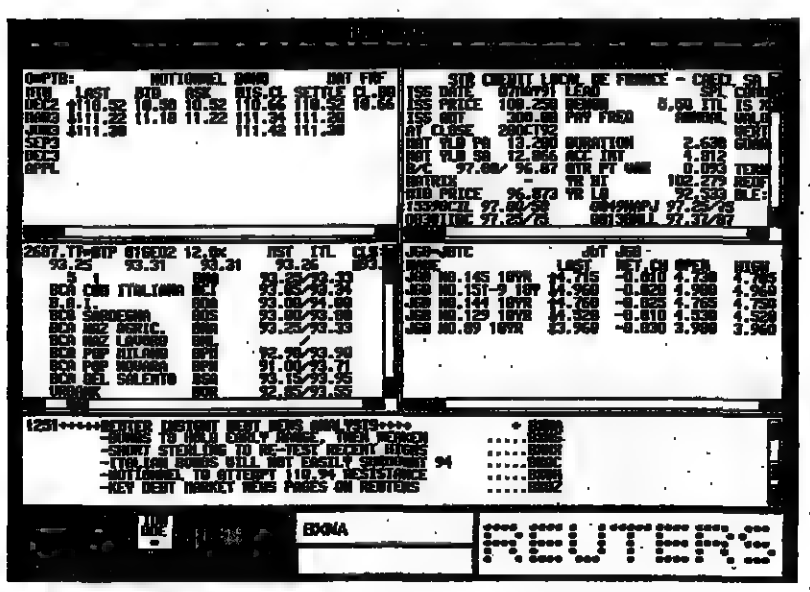

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SWEDEN

Two months ago, the main political parties suspended hostilities to see off currency speculators and restore competitiveness. Though they favour moves to join the European Community, the electorate is less keen, reports **Robert Taylor**

Unity beats speculators

SWEDEN'S ability to adapt its economy and political system to the realities of international recession was put to a severe test this autumn as capital flowed out of the country in a crisis of confidence.

In its stubborn defence of the krona's fixed exchange rate, Sweden stood impressively united. A wide alliance emerged combining the political parties, employers, financiers, trade unionists and the public. For many Swedes it became a patriotic duty to stand firm against devaluation.

Other European countries – Britain, Spain, Italy and Finland – caved in under the pressure of the speculators. The French franc was saved by the powerful intervention of the Bundesbank. Only Sweden among those in the eye of Europe's financial storms came through by its own efforts.

"I have found many governments on my recent travels around Europe who have been impressed by what we did," says Mr Carl Bildt, Sweden's conservative prime minister.

At one point the central bank was forced to increase its overnight lending rate to 500 per cent to convince the markets of Sweden's resolve. "At first, we underestimated the severity of the crisis," admits Mr Bildt. Indeed, it took at least a fortnight of public urging from Mr Bengt Dennis, the central bank governor, to convince the government it must reassure the markets that it would eliminate the country's structural budget deficit.

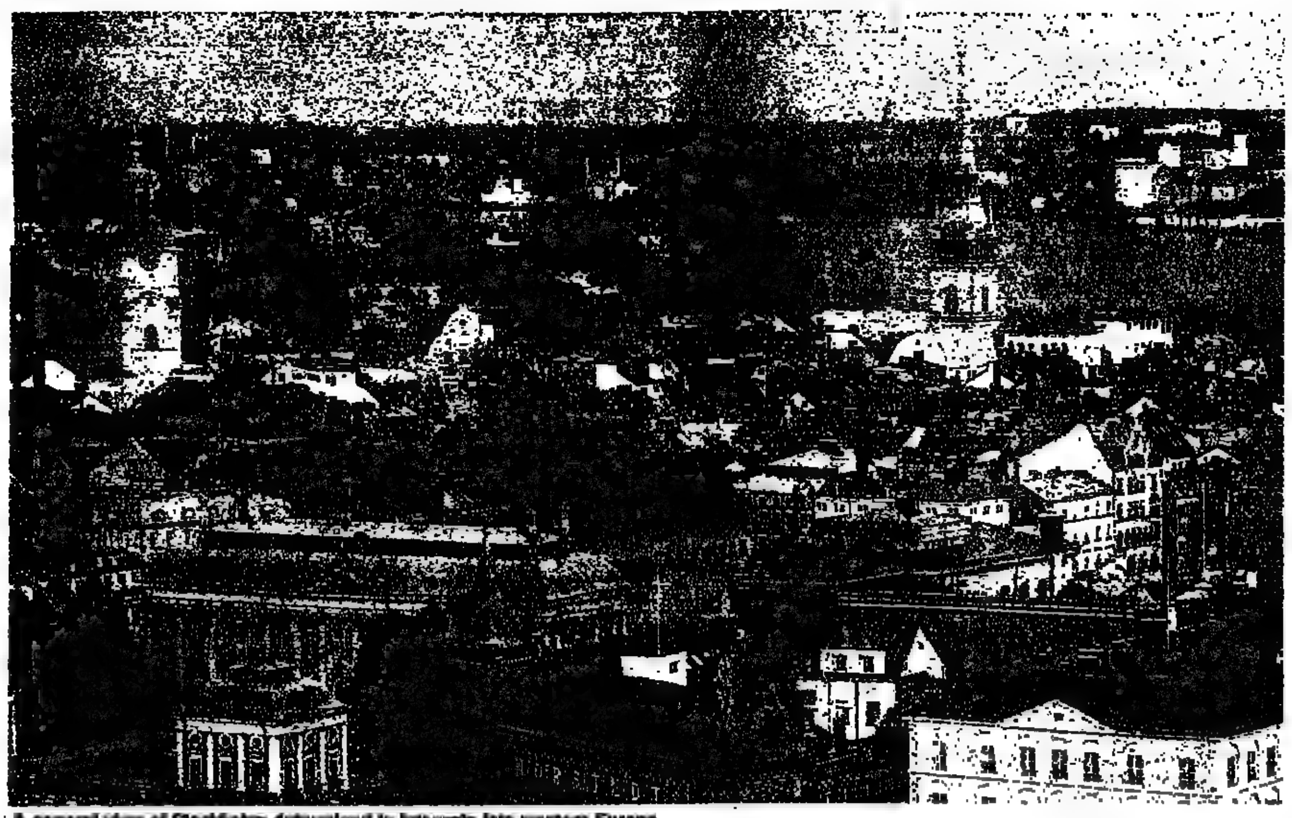
National resistance to devaluation was impressive. After all, Sweden has used that weapon many times since the war to improve its industrial competitiveness at the expense of its trading partners.

However, Mr Bildt argues: "Devaluation does not work in the long run – that was our experience." Mr Ingvar Carlsson, leader of the Social Democrats, agrees with him.

Under enormous pressure, the main political parties suspended their animosities to hammer out two separate national crisis packages designed to defend the krona and restore the country's industrial competitiveness.

"It was an historic milestone," declares Mr Carlsson. There have been sacrifices on both sides. Cherished welfare programmes, such as child benefit, have been cut. Some of the government's free market plans, such as privatising state industries, have been postponed. Living standards will be squeezed and there will be more unemployment. But opinion polls suggest nearly 90 per cent of Swedes agree with what was done.

The response to September's crisis shows how Sweden has changed over the past three and a half years since the abolition of its foreign exchange controls in July 1989. From being a model social democracy, it is being transformed into a market-oriented economy determined to integrate into western Europe.



A general view of Stockholm: determined to integrate into western Europe

All the controls and regulations that cut the country off from the rest of the world have gone. From January 1 Sweden will become a member of the 19-nation European Economic Area. Now most influential Swedes want to become good Europeans and travel on the inside track of the Community.

The consensus among the country's great and the good over the virtues of EC membership remains solid. When formal negotiations begin with Brussels on Sweden's entry early next year the impetus for a swift and successful outcome will quicken.

Mr Bildt insists his country's tight timetable for EC membership can still be kept despite doubts over the Maastricht treaty in Denmark and Britain and worries over lost EC momentum. He wants to see an outline agreement ready by next December so it can be ratified by parliament and then presented for the approval of the Swedish people in a binding referendum perhaps in the spring or early summer of 1994, before the general election due that autumn. If all goes well, Sweden could then join the EC on January 1 1995.

The prime minister considers that negotiations with the EC will take only "two to three months" to reach a satisfactory outcome. He sees the only problem area as regional policy, with reassurances from Brussels that it will recognise the special needs of Sweden's Arctic Circle area. But enlargement also involves Finland, Austria and probably Norway as well as Switzerland. Mr Bildt accepts their negotiations could prove harder and might hold up Sweden's move.

At present the opinion polls suggest most Swedes are against EC entry, partly because of the confusion over the ratification of the Maastricht treaty, but also because many identify the EC cause with a currently unpopular government. But, Mr Bildt insists the mood is changeable. With all the main political parties campaigning for a Yes vote in the referendum, he believes the pro-EC forces will win.

He also draws comfort from the fact that unlike in Norway the present hostility towards the EC in Sweden has not led to the development of a political movement aginst entry. Only the tiny Greens and the former Communist party oppose Sweden's EC entry and neither has more than 4 per cent of the vote at present. The politicians believe they have time to convince the voters to support the EC.

There is a sound reason for the apparent haste by those who want to see rapid negotiation for Sweden to join the EC. Under the country's constitution so fundamental a change must be ratified by two successive parliaments. Ratification is needed for any amendment to the constitution at least nine months before a general election and this must be voted through again by the incoming parliament.

In practice, this would mean ratifying Sweden's entry terms by next December 18 as the Swedish voters go to the country again on September 18 1994. If this timetable goes adrift Sweden would not be able to join the EC until January 1998.

In the meantime, Sweden faces other severe problems. Its recession is likely to continue longer than anybody expected a few months ago. Unemployment looks set to rise to 9 per cent or more – figures not seen in Sweden since the early 1930s. An export-led recovery is expected as the country's industrial competitiveness improves with lower costs and greater productivity, but for most Swedes the next two years will mean a probable decline in living standards and real wages, with negative or next to no growth before 1995.

With the international money markets likely to remain feverish, Sweden is still vulnerable as a small, open economy dependent on exports to maintain its relatively affluent lifestyle. Pressures on the krona have abated, but they could return again.

The future of the country's banks and financial institutions continues to cause concern. The credit losses resulting from the reckless lending policies of the late 1980s after deregulation have already forced the state to underpin Nordbanken, Gota Bank and the savings bank Skopbanken. The government is taking the unprecedented step of guaranteeing to uphold the financial system at a cost of up to SKr90bn over the next three years. This will be a severe burden on the taxpayer and could trigger wider anxieties about the solidity of the banks.

But there is a greater worry ahead. Sweden's budget deficit is forecast by the Ministry of Finance to reach 10 per cent of the country's gross national product by the 1993-1994 financial year, a figure Mr Bildt and others accept is "unsustainable". The protracted slump means the cyclical debt will go on rising as the structural one declines, so Sweden will have no choice but to reduce the huge size of its public sector.

So far, it has only been trimmed round the edges. More drastic surgery will be necessary next year. But there could be strong resistance to change, as illustrated in recent weeks by the trade union uproar over the all-party proposal that workers should lose two days from their statutory five weeks and two days' paid holiday.

Vested interests in the Swedish welfare state remain formidable. Politicians across the spectrum have talked for years about restructuring the public services – making them more sensitive to consumer needs and introducing greater individual choice. But when it comes to action, much of Sweden's public services are run by the local authorities, not the central state.

Moreover, any radical strategy would involve job losses and upheaval while the Swedish labour market has no employment opportunities. This is why Mr Bildt and others talk about a phased programme of renewal. All sides agreed in September's crisis package that financing and administration of the health service should be shifted from the state to employers by the mid-1990s. That is a sign of what may come elsewhere in the public sector. In Mr Bildt's phrase, Sweden's "welfare state" will be transformed into a "welfare market".

Despite the rapidity of the structural changes that are occurring as the country adapts to the needs of EC membership and global competition, older values of solidarity and fairness will not be turned over easily. Continuity remains as important as change in modern Sweden.

IN THIS SURVEY

PROFILE OF THE PRIME MINISTER

'Against all the odds, we're still on track'

CARL BILDT, Sweden's 43-year-old prime minister, is thriving under the pressures of office. He towers over his coalition party colleagues despite a crushing workload. No nook or cranny of government activity seems free from his close interest.

So far, his government has held together with few public differences. That is quite an achievement. Mr Bildt's Moderate party may provide most of the ideological dynamic but it must compromise with its Liberal, Centre party and Christian Democratic partners.

At moments during the September crisis strains did emerge between them at least temporarily, but no minister has so far had to resign. Public opinion surveys suggest all the coalition parties have lost ground electorally but Mr Bildt says he expected to be in a much worst position after 12 months in office.

"Against all the odds, we are still on track," he told the *Financial Times* in an interview. He feels "more comfortable in a funny sort of way" as prime minister than he believes Britain's John Major does at the moment even though his government lacks an overall parliamentary majority.

Mr Bildt is more than just a domestic-oriented politician. Perhaps only the late Olof Palme among post-war Swedish leaders has had such a consuming interest in international affairs. Today Mr Bildt has become a familiar figure on the circuit of western European capitals as he prepares the way for Sweden's entry into the European Community.

It is Mr Bildt's German connection in particular that could prove the most important for the success of his country's forthcoming EC entry negotiations. The Swedish prime minister was the only foreign guest at Helmut Kohl's 10th anniversary in power party in Bonn in September. The German Chancellor is said to treat Mr Bildt like a son and at the event described him as a major European statesman.

Certainly Mr Bildt's unequivocal enthusiasm for the Maastricht concept of European monetary and political union must be music to Mr Kohl's ears. He wants to ensure Sweden becomes a full member of the European Community. Making up for 35 years' absence from the EC, the country must be ready to join its "inner core".

"Our European policy aims to give Sweden a place at the heart of European co-operation," Mr Bildt told parliament last month. "It is of vital interest for us that current European co-operation is intensified.

"The EC needs to regain momentum and enlargement next year is one of the best ways of doing this," he argues. Enlargement – in his opinion – is necessary as an important signal to central and eastern Europe that the EC is not going to be "a closed shop" but "open to all the democracies of Europe as envisaged in the Treaty of Rome".

Using the idealistic language that most European prime ministers rarely employ, Mr Bildt still speaks about the EC with the eloquence and the passion of a first love affair. What particularly concerns him is the need for the EC to face up to the challenge of the turmoil in the eastern Europe.

Carl Bildt: Chancellor Kohl treats him as a son

He believes there is "no other institution or mechanism" than the "emerging European union" that can ensure "stability and prosperity to all of Europe".

"We cannot live in a Europe that is half stable, secure and prosperous and half unstable, conflict-ridden and increasingly economically desperate," he argues. If the ideal of the European Union fails, then Mr Bildt believes this would "play into the hands of those increasingly strong red-brown forces of aggressive nationalism and surviving communism".

Mr Bildt is taking his campaign every Monday to Sweden's small towns and villages, explaining the merits of EC entry to the doubters. He remains confident there will be a Yes vote in the country's national referendum in 1994 on the entry terms.

He is also optimistic that the four-party coalition will survive at least until the September 1994 general election. He believes the turbulent events of this September have not blown his government off course but reinforced its general sense of direction through co-operation with the Social Democrats.

But he is worried about the predicted size of the budget deficit by 1993-94 when it looks set to make up as much as 10 per cent of Sweden's gross national product. "The planned levels of spending and taxation are unsustainable," he admits. This means Sweden is only at the start not the end of painful public expenditure cuts.

Over the coming years Mr Bildt sees Sweden's famous "welfare state" being transformed in phases into a "welfare market".

Registered unemployment will rise to levels not seen in the country since the early 1930s but he does not believe that his political opponents will be able to exploit this as an electoral advantage. "One of the merits of our agreements with the Social Democrats is that we have tied them into the consequences as well," he explains.

Cool under pressure, Mr Bildt continues to be a man with few self-doubts. He believes the current of history in Sweden is moving in his party's direction after more than half a century of Social Democratic hegemony. In the shift of systems Sweden will grow more individualistic, dynamic, pluralist and open. He believes the objective of a high growth-low inflation country is realisable over the next few years.

A believer in the "strong state" and "political leadership", Mr Bildt wants to make Sweden a more vigorous market economy. That means taking "more, not fewer" political decisions.

Robert Taylor

KEY FACTS

Area	449,964 sq km
Population	8.64 million
Head of State	King Carl XVI Gustaf
Currency	Swedish Krona
Average Exchange Rate	1991 $1=6.05
	1992 $1=5.83[1]

ECONOMY	1990	1991
Total GDP ($bn)	227.5	236.6
Real GDP growth (%)[2]	+2.7	-0.7
Components of GDP (%)		
Private Consumption	51.9	54.4
Total Investment	20.6	26.7
Government Consumption	27.2	17.1
Exports	30.2	28.2
Imports	-30.0	-26.4
Inflation rate (%)[2]	10.5	9.4
Ind. wage rates (%)[2]	9.4	4.8
Ind. production (%)[2]	-2.8	-7.6
Unemployment rate(%)[3]	1.5	2.7
Reserves minus gold ($bn, Dec)	18.0	18.3
Discount rate (% pa, year end)	11.5	8.0
Govt Bond Yield (% pa, avg)	13.1	10.7
FT-A share price index (%)[4]	-22.1	6.6
Current Account Balance ($bn)	-6.9	-3.2
Exports ($bn)	56.8	54.5
Imports ($bn)	53.4	48.6
Trade Balance ($bn)	3.4	6.0
Main Trading Partners[5]	Exports	Imports
US	8.1	8.5
Denmark	7.0	7.8
Norway	8.4	7.6
UK	9.3	8.3
Germany	15.1	18.8
EC	55.0	55.0

(1) Q2 1992 (2) Percentage change over previous year
(3) Unemployment as percentage of labour force
(4) Percentage change over previous calender year end
(5) Percentage share in 1991

Sources: IMF, OECD, Datastream, EIU.

Profile: INGVAR CARLSSON

The state comes first

INGVAR CARLSSON may only be the leader of Sweden's main opposition Social Democratic party but he acts and thinks nowadays very much as if he was still prime minister, writes Robert Taylor.

His decision to suspend partisan politics in September and lead his party into the negotiation of two separate crisis agreements with the government to save the krona and improve corporate competitiveness was unprecedented, as the Social Democrats put the national interest before their own party advantage.

In opposition since his party lost the September 1991 general election, Mr Carlsson does not believe in opposing the government for its own sake. Moreover, he has no wish to draw up shopping lists of alluring promises to win votes. "We need to promise less and deliver more," he explains. "We must not be populist."

Resisting the temptation of instant opposition can be a difficult strategy to follow. Most of the party's active members would like nothing better than to fight an unrestrained campaign to wreck Mr Bildt's shaky coalition government. But Mr Carlsson insists the Social Democrats must be responsible. "I could not have looked other Swedes in the face on the bus if I had refused to co-operate with the government in September," he says.

Whatever private grumbling there might have been in the party's ranks over this, nobody of substance has publicly attacked his decision.

Indeed, the unity of the Social Democrats is astonishing, with no signs of left-wing dissent with the leadership's strategy. Only some trade union leaders have voiced criticism about the loss of two days' statutory paid holiday, an issue Mr Carlsson plays down in view of the crisis.

In taking such a high-minded position and making deals with his party's enemies, he can point to a long tradition of Social Democratic government from September 1932. The burdens of continuous office (except from September 1976 to September 1982) have shaped the ethos of Swedish social democracy for a long time.

A similar refusal by the party to seek short-term popularity at the government's expense can be seen in the Social Democratic attitude to the issue of Sweden's European Community membership negotiations. Mr Carlsson's policy on the European Community differs from the views of most of his party's supporters, who are now very hostile to EC entry.

As the prime minister who formally presented Sweden's EC membership application on July 1 last year, he is not going to abandon his pro-EC position to exploit the national mood of disillusionment.

But Mr Carlsson emphasises the Social Democrats will organise their own Yes to the EC campaign when Sweden's referendum on entry is held which he hopes will be in the spring or early summer of 1994, a few months before Sweden's next general election in September that year.

"My argument for joining the EC is very different from that of Carl Bildt's," he says. Mr Carlsson wants to strengthen the forces of the democratic left in the Community so that it will give a much higher policy priority to dealing with the curse of mass unemployment.

However, he has no ideological difficulties in accepting the need for economic and monetary union. The old shibboleths of neutrality no longer appear to concern the Social Democrats either. Mr Carlsson and his party may dislike the "neo-liberal" tone of much of the EC but this has not led them to question its present evolution. What they hope to see with Swedish entry is a strengthening of the social dimension of the Community.

Mr Carlsson may lack charisma, but he never sought high office. A modest and decent man, he took over the premiership after the murder of Olof Palme in February 1986, mainly out of a keen sense of duty. During the last 18 months of his minority government between February 1990 and September 1991 he directed Sweden onto a new course as he accepted the need to speed up the country's transformation into a social market economy despite increasing economic troubles.

The Social Democrats suffered disastrously in the public opinion polls, dropping to an approval rating of under 30 per cent in early 1991. The party recovered some ground by the general election in the autumn though it polled only 37.6 per cent, its poorest result since 1928.

Carlsson: "I could not have looked Swedes in the face if I had refused to co-operate"

However, the Social Democrats appear once more to be riding high. The latest opinion surveys suggest the party has about 47.5 per cent support, an extraordinary revival in its political fortunes.

This would probably be enough for the party to form its own majority government if repeated in the 1994 general election. But Mr Carlsson is realist enough to accept his party may have to find a partner at least in parliament if not in a coalition if it hopes to govern again in two years' time.

The former Communists – now called the Left party – look set to fall below the 4 per cent voting hurdle needed in the general election and lose their parliamentary seats but Mr Carlsson has not seen them as a junior partner for some time. Instead, he hankers after an alliance with the Liberals or the Centre.

The ideology of Social Democracy may be going through an intellectual reappraisal in Europe and the crisis of identity has even affected Sweden. Its party's links with the trade unions have weakened with the abandonment of their collective affiliation to local branches and many institutions of the Swedish labour movement, such as its publishing house and its insurance business, have known better days. But with 400,000 individual members (more than belong to the British Labour party), the Swedish Social Democrats are far from being a spent force.

Indeed, this autumn's financial troubles underlined what many observers have often suspected: that in or out of office it is impossible to govern Sweden without the full-hearted consent of its Social Democratic party.

THE ECONOMIC RECESSION

A long, hard slog back to recovery

SWEDEN'S economic recession, which began in the autumn of 1990, shows few signs of coming to an end. Indeed, the turbulent events of this autumn have added to widespread predictions that the slump will persist until the mid-1990s – much longer than even the most pessimistic economists believed likely only a few months ago, writes Robert Taylor.

The immediate future is not all gloom. *Sweden looks set for an export boom on* the back of a sharp decline in unit costs, with an expected 9 per cent improvement in competitiveness over the next two years. Industry is forecast to increase its relative competitive position by 18 per cent against Germany, its main export market, in that period.

Sweden's exports are set to rise by 3.5 per cent next year and by 6 per cent in 1994, according to the Ministry of Finance. That will ensure a healthy trade surplus of Skr47bn in 1993 and SKr59.6bn in the following year.

The country's current account will move out of deficit. In 1991 it was SKr21.3bn and this year it will be SKr19.9bn in the red but by 1994 Sweden will enjoy a small surplus of 4.1 per cent.

Wage and price rises are expected to be much lower than those experienced by Sweden's main trade rivals. The 5 per cent cut in employers' social contributions announced as part of the September crisis package, combined with expected low wage rises of only 2.5 per cent on average in both 1993 and 1994, will help to boost industrial productivity by an impressive annual growth rate of 5 per cent over the same period.

The consumer price index is expected to increase by 2.1 per cent this year (compared with a crippling 9.4 per cent in 1991), which is lower than that of most western European countries. Prices are set to climb by 4 per cent next year, but this is due to increases in indirect taxation. In 1994 the Ministry of Finance predicts the index to grow by 2.3 per cent.

Some comfort might also be drawn from *official forecasts (backed up by independent predictions)* for savings. The savings ratio – for so long negative in a country that believed it should spend and spend because of high inflation – is expected to be a positive 6.2 per cent this year, 5.8 per cent in 1993 and 6.3 per cent in 1994. Such savings figures have not been seen in Sweden since the middle of the 1960s.

But these optimistic economic indicators seem unlikely to comfort most Swedes

Most Swedes face a squeeze on *their affluent living* standards until at least 1995

who face a squeeze on their affluent living standards until at least 1995.

This year Sweden is expected to suffer a fall of 1.1 per cent in its gross domestic product after a 1.4 per cent decline in 1991. This will be followed by a further 1.5 per cent drop next year before a modest 0.9 per cent recovery in 1994.

Real disposable income is set to plummet by 2.9 per cent next year before staging a modest 0.5 per cent recovery in 1994. Personal consumption will decline by 2.5 per cent this year followed by a 2.5 per cent fall next year and nil growth in 1994. But the Ministry of Finance believes that there is "a considerable risk that the decline will be even greater".

The most serious sign of continuing slump will be the nosedive in investment, partly because of the intractable crisis in the property market due to plummeting real estate values and the drop in demand for construction. Official predictions for 1993 and 1994 suggest gross investment will drop by 8.6 per cent and 2.3 per cent respectively. The Federation of Swedish Industries in its latest prognosis expects a huge 29.1 per cent slump in housing investment next year and a further 17.4 per cent plunge in 1994.

The Ministry of Finance believes there will be an improvement in industrial output in 1993 of 1 per cent, followed by a 5 per cent growth in the following year. This follows a 5.3 per cent decline in industrial output last year and a predicted further 2.5 per cent fall this year.

These figures could prove over-optimistic. The Federation of Swedish Industries forecasts a 5.4 per cent fall in industrial production this year followed by a further 4 per decline cent in 1993 and even a 1 per cent drop in 1994.

The non-Socialist coalition government is committed to a free market strategy designed to reduce the burden of the state on the economy. But the prolonged recession is forcing ministers to scale down expectations and accept they cannot cut taxes and government spending as fast as they would like.

The latest forecasts suggest the Swedish public sector is going to remain substantial at least until the middle 1990s. The level of public consumption that totalled SKr383bn in 1991 (out of a total demand of SKr1.809bn) is going to remain constant with a 0.1 per cent increase this year and a rise of 0.2 per cent in 1993 before it falls by 0.5 per cent in 1994.

This year government outlays total 69.2 per cent of Sweden's gross domestic product while tax revenues have declined to 50.8 per cent because of the decline in business activities. In 1993 the proportion raised by the public sector in taxes and charges will rise to 51.5 per cent and to 52.1 per cent in 1994. At the same time public expenditure will climb to 71.8 per cent next year and to 72.7 per cent the year after.

Mrs Anne Wibble, Sweden's finance minister, faces an uphill task in reducing the government's budget deficit. It is not hard to understand the anxiety of Mr Bengt Dennis, the central bank governor, and the money markets at what has been happening *to government spending over the past* 12 months.

In this calendar year the budget deficit is predicted to be around SKr110bn, just under 8 per cent of gross domestic product. This contrasts with a SKr70.8bn deficit totalling 1.5 per cent of GDP in 1991. For the 1992-1993 financial year ending next July the budget deficit looks set to be about SKr160bn.

The first of the two September cross-

Old ways of economic thinking *are being abandoned in the* middle of a financial hurricane

party crisis packages aims to abolish the structural part of that deficit over the next two years although the precise size of that figure remains uncertain. The Ministry of Finance expects the public sector deficit to amount to around 10 per cent of Sweden's gross domestic product in both 1993 and 1994, so it is not going to be easy to bring government spending under control.

The bleak message this autumn is that the country faces a long, hard slog back to economic recovery. But at least there is a bipartisan consensus on the framework of what needs to be done. All sides hope to adapt Sweden to the rigours of the European Community after 1995. This means a rapid adjustment in laying down the foundations for future growth.

It is unfortunate for Sweden that it is having to abandon old ways of economic thinking in the middle of a financial hurricane. The current outlook depends so much on what happens to the interna*tional economy outside the control* and even the influence of Sweden's policy-makers. In September Mr Carl Bildt, the prime minister, likened his country to a small boat tossing and turning on high seas. The turbulence may have eased but it remains questionable whether it has really gone away completely.

Since the early months of 1989 Sweden has experienced five separate economic crises that have produced large net outflows of foreign capital from the country and necessitated government spending cuts, tax increases and exorbitant interest rates. The country has had to pay a bitter price for its old reputation as a devaluer.

Most observers are convinced now that Sweden has gone through too much to resort to manipulation of the exchange rate as a way out of its troubles. But the policymakers will have to keep their nerve when registered unemployment soars over 7 per cent in 1993 and popular pressure increases for a dash for growth as a method of creating jobs quickly.

What looks likely to hold them back from abandoning their current strategy is the recognition that such a U-turn would destroy Sweden's determination to be a model EC member in 1995.

UNEMPLOYMENT

Bid to tackle the jobless crisis

THE maintenance of full employment is no longer the first priority of Sweden's economic policymakers. Few may be ready to admit it in public but, ever since October 1990 when the then ruling Social Democrats introduced a crisis package to reverse a dramatic outflow of capital from the country, it has become increasingly apparent that the conquest of inflation *and defence of the krona's fixed exchange* rate are regarded as more urgent objectives, writes Robert Taylor.

But this does not mean that Swedes are willing to sit passively and watch an inexorable rise in their registered unemployment total to the current European Community average of just under 10 per cent. On the contrary, even during the marathon all-party negotiations in September on the bipartisan crisis package, all the country's party leaders (even the conservative Mr Bildt) recognised further financial resources were needed to counter the threat of soaring joblessness this winter.

Indeed, in the current financial year which ends next July Sweden's labour market board (Arbetsmarknadsstyrelsen or AMS) – the public body responsible for the employment services – has been allocated SKr30bn to spend, nearly double the SKr19bn it received in 1991-1992. "We are getting all the financial resources we need. In fact I'm really worried about whether we will be able to make good use of all the money," admits Mr Gote Berhardsson, AMS's general director.

He takes a gloomy, if realistic, view of what will happen to Sweden's labour market over the next few years. "The 1993-94 *financial year will be worse than this* year," he says. AMS estimates that the registered unemployment total will have reached 9 per cent by next autumn. The number of long-term jobless (defined as those registered without work for more than six months) will climb to 100,000 next year from 62,000 at the moment.

AMS reckons that nearly 500,000 jobs will have vanished from the Swedish labour market between the start of 1991 and the end of 1993. It estimates 50,000 jobs will be lost in manufacturing next year, which is a further 6 per cent fall, cutting the labour force in that sector to 850,000.

On top of this, AMS forecasts that 35 per cent of Sweden's construction workers will be jobless by next winter. In the past the country's service sector has provided a way out by increasing job opportunities, but not any more. Even Sweden's huge public services will be shedding labour over the coming months with around 45,000 jobs expected to go next year while job losses in the private services sector look set to accelerate to 60,000.

Mr Berhardsson stresses that AMS alone is incapable of solving the growing unemployment crisis. "We can't take on the responsibility for bringing back full employment." He argues that it is up to the government to pursue a growth strategy that will create more jobs.

He believes his organisation can deal with up to 3.5 per cent of the entire workforce but next year AMS is being asked to cater for as many as 0.25m people, which is 5 per cent.

AMS was established as a public agency in the early 1950s. It had been seen as an instrument to lubricate the tight labour market by providing training and education programmes that give workers new skills so they can adapt to technological change. As such, it has won an international reputation, though few other countries have really copied the AMS system.

Now, however, AMS must deal with a growing jobless crisis, of a magnitude which Sweden has not experienced for more than 60 years. But AMS is no part of the country's social services. It remains a commercially driven organisation, not a relief agency which has been given the thankless task of containing the rise in the country's unemployment.

At present AMS is spending about 30 per cent of its budget in paying unemployment benefit to the registered jobless, a proportion of its allocation that Mr Berhardsson for one believes is much too high. Traditionally AMS has concentrated its resources on active, not passive, *labour market activities or on the place*ment and counselling services for those either without work seeking a new job or wishing to change their employment.

Lutheran Sweden takes a traditionally harsh view of the work-shy and it applies stiff work availability tests for those who find themselves without a job. Indeed, AMS is prepared to use coercive methods if necessary to encourage shirkers to go on a training course or take a place on a work experience scheme.

At the moment it is estimated that 97,000 Swedes are on training courses, which last for six months. A further 46,500 Swedes aged between 18 and 24 are taking advantage of a new AMS scheme that began this September which provides them with work experience for six months mainly with small private sector companies. The number of places on the scheme will rise to 72,000 in 1993. Participants are paid an allowance equal to the benefit they would receive if unemployed but Mr Berhardsson insists it is not a form of job substitution. On top of this, AMS has a further 40,000 Swedes carrying out relief work mainly for local authorities.

Already AMS's emergency action has had an impact on the aggregate numbers *out of work. In September those recorded* as unemployed (who were seeking work actively) fell to 5.2 per cent from 5.8 per cent in August. But it is estimated that as many as 11 per cent of workers now lie outside Sweden's normal labour market, either unemployed or being covered by AMS schemes, and that figure looks set to rise to 15 per cent during 1993.

The financial support being given to Sweden's labour market services by the government indicates that politicians are keen to minimise the social and economic damage caused by unemployment. Nonetheless, the overall statistics suggest Sweden can no longer claim to be an exception to other western European economies. Like them, it is also having to deal with a jobless crisis that no amount of training and education alone can disguise for long.

WAGE BARGAINING

Swedish model leaves stage

SWEDEN'S world-famous system of centralised wage bargaining between the country's employers and trade unions died slowly in the 1980s as SAF (Arbetsgivareföreningen) the country's powerful employers' organisation, turned against it on the grounds that it was inflexible, unwieldy and inflationary. But no definitive, permanent alternative has so far emerged, writes Robert Taylor.

This autumn SAF has mobilised its 45,000 corporate members in a united front against any attempt by the trade unions to press for a new centralised wage agreement for 1993 and beyond after the present arrangements end in April.

Mr Ulf Laurin, SAF's combative president, wants to see no general pay rise for anybody next year but a continuation of the existing two-year national agreement achieved by a government-appointed mediation commission. However, he favours the removal of two days' paid holiday from all workers as part of September's all-party crisis package.

In the longer run, he believes in an escape once and for all from the fixation with centralised pay bargaining and the encouragement of a multiplicity of different payment systems among companies. "The Swedish Model is dead. I want to see a diversity of Swedish Models in wage determination," he explains.

Most employers are in no position to compensate their workers for the present severe squeeze on living standards, let alone provide them with an increase that would improve their wage packets.

"We are uniquely united this time," says Mr Laurin. For once all of Sweden's employers – even those in the country's enormous public services sector – have agreed to hold a firm line over pay. He accepts some of the large export-oriented companies may want to reward their workers and he believes they need the flexibility to do so but he remains opposed to any return to the old Swedish wage bargaining system that – as he points out – ensured many workers secured three separate pay rises at different levels – national, industrial and company – with the inevitable emergence of severe wage drift.

SAF is opposed in particular to any attempt by the trade unions to negotiate – as they want – a special deal for the low paid. Nor are employers in the mood to endorse any wage bargaining that involves income redistribution. The days of egalitarian wage policies are over.

Ideally, SAF would like to see pay negotiations in future as close to the individual worker as possible. The present economic crisis provides Sweden's employers with an opportunity to reform industrial relations as they want. Rising unemployment can be expected to weaken trade union resistance.

But it is necessary to distinguish between employer rhetoric and reality over wage determination. Under Mr Laurin's leadership SAF has abandoned much of its corporatist behaviour. Its nominees no longer sit of right on public boards. The organisation does not believe it should help to run the country. It preaches robust free market values of decentralisation and individualism.

But this is no clean break with the past. Old habits linger on and the severity of Sweden's economic troubles continue to shape employer attitudes. Two years ago, neither SAF nor the trade unions

Many employers want to introduce forms of merit pay to reward and encourage their workers

wanted the creation of a temporary national mediation commission to coax the two sides to agree on pay but they accepted it eventually and it turned out a great success.

Wage pressures eased dramatically as a result of the commission with a fall in the level of increase in hourly earnings from 10 per cent in 1990 to 5.6 per cent a year later.

Professor Hans de Geer, the author of a forthcoming book in English – The Rise and Fall of the Swedish Model (Carden Publications) – admits SAF found itself in a "paradoxical stance" as a result of accepting the mediation commission. As he argues: "In reality, if not formally, just as SAF decided in principle on a decentralised form of negotiations, formal wage formation was again being centralised."

This winter the LO – Sweden's once mighty blue-collar union federation – is revising its whole attitude to wage bargaining. It recently admitted: "Increased unemployment and a deregulated capital market have dramatically strengthened the power of employers in their relations with workers."

Some union leaders may talk of using pay bargaining as a way of compensating households for the coming squeeze on their living standards but few Swedes believe the mood among workers is ripe for militant action. The LO favours the creation of what it calls an Ecu wage norm at national level of around 5 per cent, arguing that a centralised approach is more cost-effective than any other.

The National Institute of Economic Research estimated recently that hourly earnings will rise by only 3.5 per cent this year with further modest increases of 3 per cent in 1993 and 4 per cent in 1994. This will ensure a 1.9 per cent increase in real disposable income, followed by a 2.8 per cent drop next year and only 1 per cent growth in 1994.

Compare this with the increase of hourly earnings in both 1989 and 1990 by an average 10 per cent and a real improvement in disposable incomes of 2 per cent and 3.1 per cent respectively.

The cold climate for wage bargaining may help to reduce unit labour costs still further over the next two years but many employers in manufacturing are reforming their work organisations and they want to introduce forms of merit pay to reward and encourage their workers. As Mr Laurin emphasises, Swedish employers want to have the freedom to introduce more flexible payments systems.

But in the end neither SAF nor the trade unions seem likely to achieve all they want. Sweden will not return to centralised, nationwide wage determination. Nor will it move to the unstable free-for-all known in Britain. Some co-ordination among employers and trade unions seems likely to remain, however decentralised pay determination may grow in future. Indeed, SAF will have to devise a strong and uniform employer front to ensure a more long-term flexible approach succeeds.

Prof de Geer sees the possible emergence of a "system of local negotiations based on a fundamental attitude of converging interests in the companies". This will empower local trade union organisations and their employer equivalents.

An obvious tension exists between the national macro-economic need for low or no pay rises and the wish by Swedish employers to link pay more closely to productivity. The greater application of market forces to public welfare services may help to break down the difference in bargaining between private and public sectors but the demand for equity and fairness remains strong.

The outlines of Sweden's next pay system have yet to be agreed. In the meantime, all sides face the gloomy prospect of wage-cutting unless the economy revives.

The core of the Wallenberg family empire

Investor gets busy

THE new Investor, Sweden's largest investment company and the core of the Wallenberg family's industrial empire, has made an impressive start this year in its role as a diversified industrial holding company, since the merger of the "old" Investor with its investment twin Providentia.

At a time when most of corporate Sweden is either reporting plummeting profits and even losses, Investor's performance underlines just how impressively the Wallenbergs have managed to prosper during recession.

The new investment company has current assets totalling SKr80bn and an influential SKr22bn share portfolio. No wonder Investor agreed to a 22 per cent increase in its dividend to SKr5.25 per share this year.

Investor's strategic holdings are a roll-call of Sweden's leading blue-chip companies. They include Astra, the highly successful pharmaceuticals group; Stora, Europe's largest forestry company; Asea, the engineering giant; SKF, the world's largest roller bearing maker; the telecommunications company Ericsson; Electrolux, the white goods manufacturer as well as Atlas Copco, Europe's largest air compressor company. It also has a wide range of interests in banking, hotels, civil aviation, television, newspapers and trading.

In February last year Investor and Providentia acquired for SKr12.8bn all the outstanding shares in Saab-Scania, the Swedish vehicle and aerospace group. This gave them access to an operating business generating cash. As Mr Claes Dahlbäck, Investor's chief executive, explains: "As an investment company – with a high net worth discount on the Swedish stock exchange – it was nearly impossible for Investor to raise risk capital through new share issues. The step to a diversified industrial holding company changed this."

The finance companies sold their controlling stakes in the dairy equipment company Alfa Laval to Tetra Pak and Skandia, the insurance company to raise capital towards the 100 per cent acquisition of Saab-Scania. But half the acquisition was financed through a SKr6.5bn issue of convertible debentures.

The "new" Investor is going to be one of the most powerful players on Sweden's corporate scene during the 1990s with an increasingly high international profile, though at present it is consolidating. The company hopes to increase foreign ownership of its capital stock from a current 5 per cent to between 15 and 20 per cent within five years.

THE NEW INVESTOR

	Sector	Bourse value	% of Portfolio	% of Voting shares	% of Equity
Astra	pharmaceuticals	SKr6.823bn	30.9	12.5	10.4
Stora	forestry	SKr3.645bn	16.5	22.6	18.9
Asea	engineering	SKr2.788bn	12.6	10.4	7.7
Incentive	gen. industrial	SKr3.225bn	14.6	31.1	23.7
SKF	roller bearings	SKr2.274bn	10.3	38.4	15.3
Atlas Copco	compressors	SKr1.552bn	8.0	22.7	16.1
Ericsson	telecoms	SKr 586m	2.7	22.2	1.9
Electrolux	white goods	SKr 337m	1.5	5.2	1.3
Sila	civil aviation	SKr 306m	1.4	28.1	28.1
OM	options	SKr 140m	0.6	20.6	20.6
SE Banken	banking	SKr 112m	0.5	1.4	1.4
Garphyttan	metal, wood	SKr 90m	0.4	19.4	19.4

The emergence of the Investor represents a crucial strategic shift by one of the world's oldest industrial dynasties as it seeks to strengthen its position in a more open competitive global economy after the removal of the regulations and controls that protected its position for more than 50 years.

By creating one single investment company at the heart of their industrial federation, the Wallenbergs are seeking to enhance their power and influence on international markets while at the same time tightening control of their most vital assets at home. "We have built up a defensive position over the past two years but it will form the base for an offensive in the 1990s," says Mr Dahlbäck.

Investor has launched a new international investment strategy under the direction of Mr Jacob Wallenberg, the 36-year-old son of the present head of the family, Peter. He represents the fifth generation in a family that has played a dominant role in Sweden's corporate life since its industrial revolution at the end of the last century.

"You will see an expansion in our strategic holdings in the years ahead. Our assets will grow. We will be making foreign acquisitions but some of our companies will be trimmed down," explains Mr Dahlbäck.

The breadth and strength of the Wallenberg empire is based on a distinctive sense of family obligation.

"I believe you should only do what you know something about," he explains. "I am an industrialist by training, not a financier." Peter also remembers the wise advice he received as a young man from his family seniors. "Stay out of property, they told me. Don't touch oil. You have to play the ball where it lies on the field – my father Marcus used to say".

Like them, he believes the Wallenberg interest must remain at the heart of Sweden's manufacturing industry.

> **"We have built up a defensive position in the past two years but it will form the base for an offensive in the 1990s"**

During the booming 1980s the family did not join in the rush into real estate speculation or plunge into new unchartered sectors such as electronics and high technology.

Instead, the Wallenbergs launched an active stock market trading strategy combined with an industrial acquisitions offensive first in Sweden and increasingly after 1986 in western Europe.

The results nearly 10 years later have been staggering. The value of the Wallenberg stock portfolio has climbed from SKr900m in 1980 to over SKr18bn. Not only did Peter take full advantage of the bourse boom of the 1980s but he showed some grit and flair in fending off threats to his position from a number of potential raiders.

"My attention is focused on the company balance sheets. I'm looking at them all the time for sparks that catch my eye but I'm a hands-off manager and not involved in the detail," he explains.

At the same time Peter encouraged the expansion of the key companies in the Wallenberg empire. Stora, the forestry group, is the example that he likes to give. Its expansion was devised and directed from Investor's office in Stockholm's banking district. First it bought Billerud, Papyrus and Swedish Match at home and last year 15 per cent of Korsnas. In 1990 it acquired the German industrial giant Feldmuhle Nobel.

But Asea's highly successful merger with the Swiss engineering group Brown-Boveri made in the autumn of 1987 and the aggressive acquisitions of Electrolux after 1986 with the purchase of Zanussi in Italy and White in the US were also crucial developments in the growth of the Wallenberg interest in Europe.

The dynamic changes of the 1980s transformed Investor. Mr Dahlbäck recalls the company he joined nearly 20 years ago as staid and sleepy. He likens it to the "sacristry of an old cathedral". Now he says it is a "humming workshop" with over 70 mainly young brokers and finance experts on the payroll.

The Wallenbergs seem pragmatic about their future intentions. "In terms of our ownership, we will always face difficult alternatives," Peter admits. "We can sell, keep what we have or buy. There is no single solution. We have to make our decisions depending on circumstances as they arise."

But the creation of the new Investor suggests Jacob Wallenberg and his cousin Marcus will inherit a formidable industrial federation after Peter goes that will continue to flourish despite more open competitive conditions, just as the family did for so long behind Sweden's protective walls.

Robert Taylor

Profile: PROCORDIA

A name to remember

PROCORDIA, the food and pharmaceutical conglomerate, remains one of the few bright lights on Sweden's gloomy industrial scene. Its financial performance is impressive and its outlook promising, writes Robert Taylor.

It had been expected that the Swedish state would sell off its 40.4 per cent voting shares and 34.2 per cent equity in Procordia this autumn but a sluggish bourse and the turmoil on the currency markets in September compelled a postponement.

The national agreement between the Swedish government and the Social Democrats includes a moratorium on the planned privatisation of the country's 35 state-dominated enterprises, but this does not apply to Procordia. Mr Jan Ekberg, the company's president, hopes that the sale of the state's shares in Procordia can go ahead next spring.

If successful, the launch could help to complete the transformation of Procordia into one of Europe's leading corporate players in both the growing food and pharmaceutical markets.

Much will depend, however, on what happens to Volvo over the coming months. The troubled auto giant remains – with the state – the joint dominant shareowner of Procordia with 45 per cent of its voting rights and 39.5 per cent of the equity.

Earlier this year Mr Pehr Gyllenhammar, Volvo's charismatic executive chairman, tried in a highly public power bid to take over the whole of Procordia but he was rebuffed by the Swedish government. It would not take much for Volvo to lift its stake to half that of the company in the event of flotation.

Volvo – which is believed to be losing money at a rate of SKr2bn a year at the moment – could gain majority control of Procordia in order to use its resources as a necessary financial support to prop up its ailing auto division rather than to boost the long-term future of its food and pharmaceuticals. Such an outcome would be a setback to Procordia's long-term plans.

But Mr Jan Ekberg, the company's newly appointed chief executive, insists: "If we run Procordia in a professional manner, Volvo will support it and be satisfied. How Volvo behaves will depend very much on how we manage."

As one of the key figures who drew up the strategy that transformed Procordia in the late 1980s from being a rather unwieldy state monolith into a commercially successful enterprise, Mr Ekberg is keen to trumpet the achievements of the company over the past eight years. This involved deliberately focusing on niche products in a number of limited business areas for sale and distribution in global markets.

"Our aim is to achieve market leadership in all the niches where we operate," he explains.

The most lucrative activity is pharmaceuticals. In the first half of this year alone Kabi Pharmacia enjoyed an 11 per cent improvement in its operating income to SKr1.391bn and a 15 per cent boost in sales to SKr6.7bn. Its profits (after financial items) almost doubled to SKr4.197bn last year from SKr2.282bn in 1989.

But Procordia's achievement in its food and beverage activities looks impressive, too. Operating income went up by 16 per cent to SKr141m for the first six months in its food division and sales rose by 1 per cent to SKr2.739bn. Sweden's hot summer boosted the company's beer, water and soft drink sales by 6 per cent to SKr2.227bn in the first half of the year, while its operating income shot up by 35 per cent to SKr145m.

> "Our aim is to achieve market leadership in all the niches where we operate"

The only troubled business area is biotechnology, where operating income dropped to only SKr42m in the first six months from SKr66m for the same period of 1991 and sales also stagnated at SKr908m, down from SKr918m.

Over the past eight years, Procordia has gone through considerable structural change. "In that time we have sold off around 100 companies and acquired up to 50 in health care and consumer products," explains Mr Ekberg. The pace has not lessened much in 1992 either. This September Procordia purchased for SKr1.37bn Swedish Match, the world's largest manufacturer of matches and disposable cigarette lighters from an international consortium led by Citicorp Venture Capital.

At the same time, divestments have continued. The company sold off its sugar production fac'ilities to Danisco, the Danish group and its 7 per cent stake in Freia Marabou, the chocolate company, for NKr450m.

Procordia's long-term aim is to concentrate ever more on pharmaceuticals and food. Mr Ekberg stresses the connections between the two core business areas as he sees the distinction between people as patients and consumers breaking down. In future the sick will be able to exercise more personal choice than now in acquiring health care products while at the same time more emphasis will go into making foods of higher nutritional value.

At present, Procordia has little name recognition outside the Nordic region. But this looks set to change during the 1990s. As the company grows apace in an integrated European market, it should be able to establish a clear sense of identity elsewhere alongside other blue-chip Swedish companies such as Volvo, Electrolux and Ericsson, which have already done so many years ago.

Christopher Brown-Humes on change in the air

Aviation free-for-all

WHEN IT comes to airline deregulation, the Swedes do not do things by halves. Within the space of a few months a highly protected domestic market, which gave Scandinavian Airlines System (SAS) a virtual monopoly, has given way to an environment characterised by increasingly fierce competition.

"Sweden is now the most deregulated and open market for civil aviation in Europe," says Mr Mats Odell, minister of transport and communication. Liberalisation formally took effect on July 1 and Mr Odell takes satisfaction from the results it has already produced. There were those who thought SAS had such a strong position that opening the market up would have only a limited impact. "We have proved the sceptics wrong," he says.

There has certainly been no shortage of companies applying for, and getting, concessions to operate on domestic routes in direct competition with SAS. Transwede, Malmo Aviation, Golden Air and Avia are among the companies now posing a direct challenge to the Scandinavian national carrier and its majority-owned subsidiary, Linjeflyg.

The presence of the newcomers has already made itself felt on pricing. Fares have come down by 10 to 40 per cent. "Even the threat of competition has reduced prices on routes where competition is still not a reality," says Mr Odell.

For instance, on the Stockholm-Malmo route which Transwede and Malmo Aviation operate in competition with SAS, the economy return fare has been cut from SKr1,000 to SKr700 since the competition emerged.

One of the keys to the deregulation success, Mr Odell believes, has been the re-opening of Bromma, Stockholm's city airport, which has given the new companies access to peak-time slots which they might otherwise not have had. This airport can handle much smaller aircraft than the main Stockholm airport at Arlanda used by SAS. In addition, SAS has been prevented from using Bromma as a centre for its intra-Nordic traffic.

One of the dangers of the deregulation process, though, is that remote communities in the north of the country will lose their air services because they are no longer viable. Mr Odell is determined that this will not happen and promises that in the last resort the state will ensure these vital services continue.

SAS purports not to be worried by the arrival of rival carriers, although it admits that the competition has been fierce. "When the domestic market was opened up we expected our share of the domestic market to fall to 70 per cent from 97 per cent," says Mr Lennart Svantemark, SAS vice-president of foreign affairs. It is not down to the 70 per cent level yet, but it is already less than 90 per cent.

There is a broader European context to the changes in the domestic market, because the government is anxious to ensure there are slim pickings for foreign carriers, as and when they are permitted access to the Swedish market.

Liberalisation of the EC airline market takes another big step forward in 1993, with an immediate impact on SAS's operations out of Denmark. But it will not be long before foreign carriers get the chance to fly between two points in Sweden as an extension of existing services.

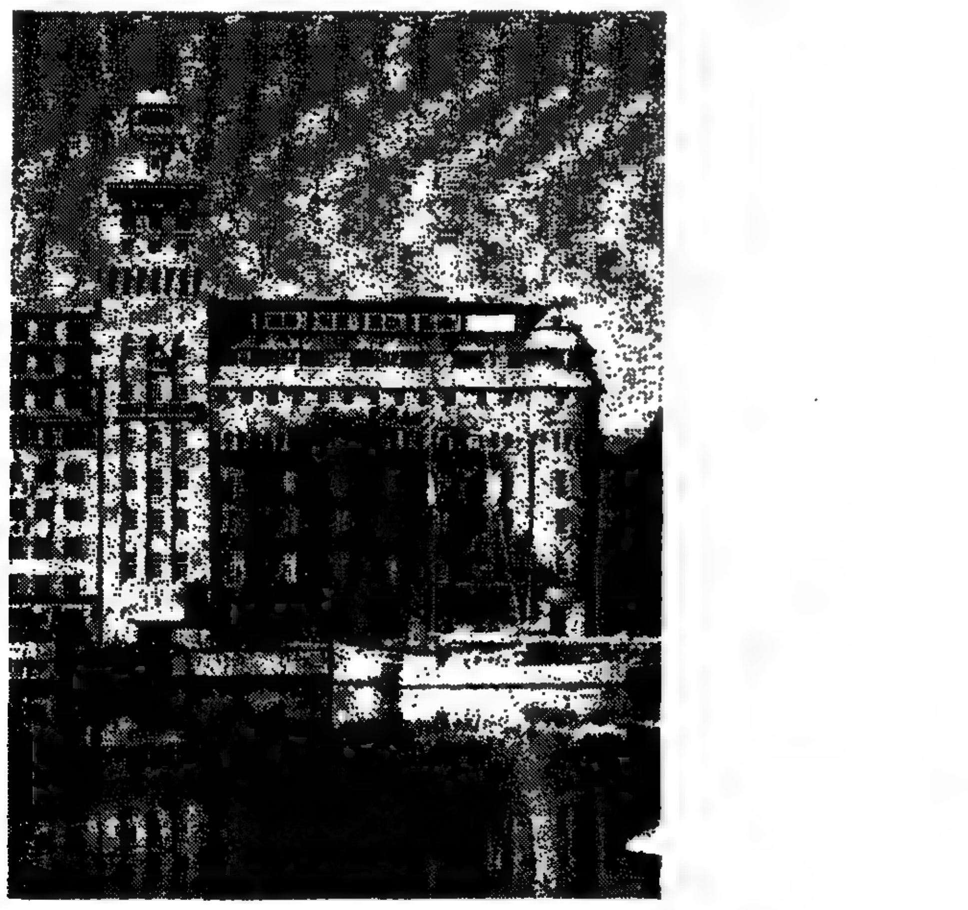
SAS does not expect to lose market share as a result of European deregulation, but it does foresee increased pressure on pricing. It points out that it is already used to competition from other national carriers, such as Lufthansa and British Airways, to and from the Scandinavian market.

Nevertheless, the carrier has no doubt that it needs both size and efficiency to compete in the new, more competitive conditions.

That is why, on the one hand, it is pursuing ever closer ties with Swissair and Austrian Airlines, through the so-called European Quality Alliance (EQA). Many believe that this will eventually end in a full-blown merger with one or both airlines.

On the other hand, it has launched a determined efficiency drive, which has reduced costs by 20 per cent over the last two years with the loss of 3,500 jobs. There is a further plan to increase efficiency by 8 per cent a year over the next three years.

The evidence suggests the group is managing to survive the dual challenges of deregulation and recession. It returned to profit in the first six months of this year, turning round 1991's first half SKr1.02bn loss into a SKr502m profit. Whether all the smaller airlines now operating within the Swedish market survive is another matter.



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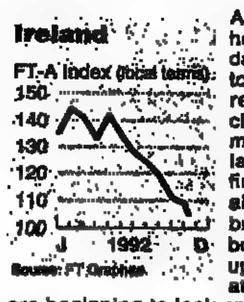
INSIDE

Saab needs injection to return to profit

Saab, the Swedish carmaker, says it will need a capital injection from its owners, Saab-Scania and General Motors of the US, within the next three months. The group says the injection, added to cost-cutting measures and the planned launch of its new model next year, should guarantee its return to profitability. Page 18

Emerald isle loses its sparkle

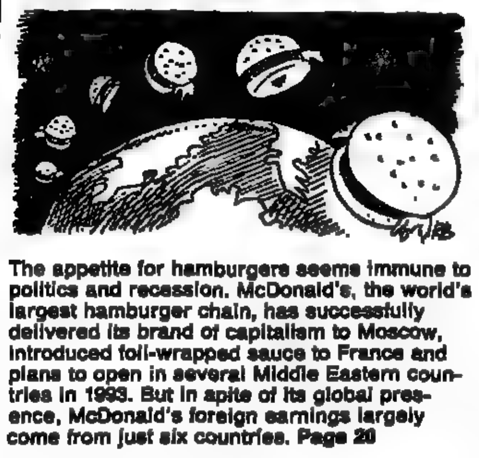


Ask an Irish stockbroker how business is these days, and you are likely to get an unprintable reply. Anglo-Irish Bank closed down its Solomons stockbroking arm last month, probably the first in a series of rationalisations among stockbroking firms this year if business does not pick up. Analysts' projections at the start of the year are beginning to look optimistic. The ISEQ has fallen around 20 per cent since the end of 1991. Back Page

GPA to meet with 73 banks

GPA Group is expected to outline its debt restructuring proposals at a meeting of its 73 banks on November 23. The world's biggest aircraft leasing company, which has total debts of around $5bn, is talking to its banks as part of a series of talks with creditors and suppliers to strengthen its financial position. Page 23

Bigger and bigger Mac



The appetite for hamburgers seems immune to politics and recession. McDonald's, the world's largest hamburger chain, has successfully delivered its brand of capitalism to Moscow, introduced foil-wrapped sauce to France and plans to open in several Middle Eastern countries in 1993. But in spite of its global presence, McDonald's foreign earnings largely come from just six countries. Page 20

Aluminium float awaits upturn

VAW Aluminium of Germany is being prepared for the private sector. Its parent, VIAG is preparing to sell up to 49 per cent of the aluminium company. However, the move will have to wait until uncertainties about the German economy are removed. Page 18

Gilts paralysis

A surge in private client business has paralysed trading in the gilts market, as staff, computers and back-office facilities have become overstretched. Page 22

Market Statistics

Companies in this issue

Chief price changes yesterday

FRANKFURT (DM)

Rises			
Metallgesell	335	+	13
Rheinelektra	643	+	28
Vag	323	+	13
Falls			
Asko Prf	370	−	20
Douglas	412.5	−	9.5
Holzmann Ph	931	−	17

NEW YORK ($)

Rises			
Microsoft	92⅞	+	1
Apple Comp	56	+	1
Falls			
AMR	65	−	¾
Delta	58½	−	½
The Limited	23⅛	−	⅞
Revco	8⅛	−	⅜

PARIS (FFr)

Rises			
Air Liquide	748	+	22
Elf Sanofi	1108	+	48
Unibail	422	+	12
Falls			
Fonc Lyonnaise	520	−	29
Geophysique	565	−	25
[illegible]	121	−	9

TOKYO (Yen)

Rises			
Ask	410	+	31
[illegible]	247	+	25
Nippon Signal	1050	+	90
Falls			
Kanematsu Elec	580	−	50
Sea-Com	193	−	15
Terasaki Sels	671	−	52

LONDON (Pence)

Rises			
ASDA	47½	+	2½
Anglian Water	479	+	12
Dickie (J)	[illegible]	+	8
Dixons	236	+	11
Holmes Protect	53	+	4
McAlpine (A)	118	+	10
Mercury Asset	313	+	17
Morland	395	+	25
Stakis	34	+	3
T & N	142	+	7
Tie Rack	66	+	5
Utd Energy	15	+	3
VSEL Consortm	488	+	19
Falls			
Alexon	131	−	13
Apollo Metals	74	−	6
Betterware	163	−	9
Dudley Jenkins	40	−	7
Gestetner	144	−	9
Merchant Retail	15	−	2
Ratners	16¼	−	2¼
Rolls-Royce	115	−	9½
Simon Eng	79	−	8
VTR	40	−	3
Warburg (SG)	479	−	45

UK snack maker to buy Coca-Cola Amatil beverage group for A$430m

United Biscuits expands to Australia

By Guy de Jonquières in London and Kevin Brown in Sydney

UNITED BISCUITS, Britain's largest biscuit and snack manufacturer, is to acquire the snack foods business of Coca-Cola Amatil (CCA), the Australian beverage group, for A$430m ($307m) in cash.

To help fund the purchase, UB raised about £80m ($121m) by placing 24.1m new ordinary shares with institutional investors yesterday at a price of 332p. UB's shares closed at 337p, down 9p.

UB said the deal was an important step in its plan to become a world leader in biscuits and snacks and would give it a strong position in Asia Pacific.

CCA snacks has 56 per cent of the Australian market, which accounts for about 85 per cent of its sales. It is also brand leader in extruded snacks in Italy, where it has 27 per cent of the market, and has factories in Malaysia and Papua New Guinea.

The business, to be renamed Smiths Snackfood, earned a trading profit of A$36.1m on sales of A$401m in the year to December. UB said it expected profits in the current year to be 8 to 10 per cent higher.

The deal must be approved by Australia's Foreign Investments Review Board. The board is under pressure from economic nationalists opposed to a A$209m hostile bid by Campbell Soup, the US foods group, for Arnotts, Australia's leading biscuit company.

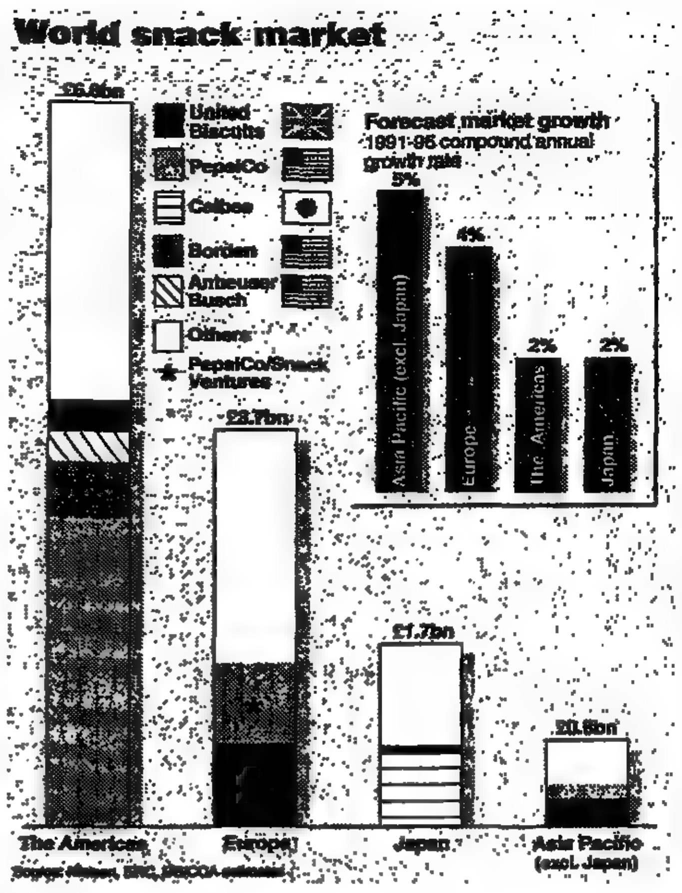
UB said it was confident its planned deal would face no such problems, as the bid was friendly and for a company already foreign-controlled.

CCA, which is 51 per cent owned by Coca-Cola of the US, said the deal would allow it to concentrate on its soft drink distribution business, which has grown from four countries to eight since 1989.

The sale will result in a A$243m extraordinary profit for CCA.

UB said it expected the deal, to be completed in January, to be non-dilutive next year and to lead to a £116m rise in group borrowings.

Lex, Page 16; Market, Page 27



A deal snatched from under the giant's nose

Mr Eric Nicoli, chief executive of United Biscuits, was quick to acknowledge yesterday that, however compelling the logic of the proposed CCA snacks deal, it required particularly deft selling to a stock market unnerved by recent reverses in UB's fortunes, writes Guy de Jonquières. "We are well aware that a strategic initiative at this time, when the performance of other parts of the business isn't optimised, raises all kinds of questions in the investment community," he said.

Mr Nicoli and his colleagues were ready with two answers. First, UB was making good progress in tackling the problems at Keebler, its US biscuits and snacks subsidiary, which led to a 17 per cent fall in the group's first-half profits.

Keebler's sales during the second half-year, which began in July, were up 8 per cent, it had regained half its lost market share and profits were on course for a recovery.

The second answer was blunter. The CCA deal was an unrepeatable opportunity to establish an Asian-Pacific bridgehead. "The timing is entirely a matter of availability – we had to take it now," Mr Nicoli said.

UB has snatched CCA from under the nose of PepsiCo, the US soft drinks company, with which it is engaged in a world-wide race for market share.

PepsiCo's annual snacks sales *of almost $6bn are about four* times greater than UB's. However, the CCA deal means UB can claim to be bigger than its US rival in the two markets where growth is fastest – Asia Pacific and Europe.

Valued at roughly 12 times CCA snack business's annual cash flow, the price of the acquisition compares favourably with recent international food industry deals. There is also a neat fit with UB's existing businesses.

The deal will strengthen UB's position in Italy and give it a plant in Germany. CCA's scattered Asian businesses also complement UB's outposts in China, Hong Kong and the Philippines.

The restricted overlap limits the scope for recouping the purchase price through rationalisation. Profits growth will depend mainly on expanding sales.

UB plans to restructure the management of its KP snacks *division. CCA's European* operations will be merged with KP's continental businesses, while management in Australia will take responsibility for all snacks operations in the Asia-Pacific region. In the near-term, UB aims to increase volumes by adding its existing products to CCA's range in Australia.

However, the full promise of the deal will be realised only if it unlocks the potential of emerging Asian markets. Though some are growing rapidly, all except Japan are still quite small.

According to Mr David Hearn, managing director of KP, the company's near-term approach will be "a question of planting seeds and waiting". But if UB is to maintain its early lead, it will need at some stage to make substantial investments to develop these markets.

The company also faces a waiting game nearer home, particularly in Germany, Europe's second largest snacks market after Britain, which is dominated by Bahlsen and Convent, both privately owned companies.

For the foreseeable future UB is resigned to playing a marginal role in Germany, but consoles itself with the thought that PepsiCo is in the same position. "Neither we nor PepsiCo will break into Germany without buying one of the two local manufacturers," says Mr Hearn. "The play is to wait until one of them becomes available."

Metro's takeover of Asko blocked

By David Waller in Frankfurt

GERMANY'S federal competition authorities yesterday dealt a blow to plans to create one of the world's largest retail groups with sales of more than DM70bn ($46bn).

The Bundeskartellamt provisionally ruled that the planned purchase by Metro, Germany's biggest stores group, of a majority stake in Asko Deutsche Kaufhaus would be anti-competitive in a number of areas.

The privately-controlled Metro, which is based in Switzerland, already has an 11 per cent shareholding in Asko. It announced its plans for a takeover in July this year and the move has the support of Asko's management.

However, the cartel agency has concluded that in a number of sectors the combined group would have anti-competitive market dominance in certain parts of Germany. The authorities said yesterday that the sectors involved are food, furniture and DIY, but gave no further details.

The ruling will not automatically lead to the unscrambling of the acquisition plan as Metro, Asko and the authorities have until the end of this month to negotiate over a possible compromise.

This could involve selling stores in the areas where the cartel agency has identified market dominance, but neither company commented yesterday on a likely response to the ruling.

If no compromise can be reached, Metro can challenge the ruling in the Berlin courts.

Last year Metro reported turnover of DM46bn, of which more than DM30bn came from the group's extensive network of retail businesses within Germany, at the core of which is the majority-owned quoted Kaufhof group.

The business was founded by Mr Otto Beisheim who copied the "cash and carry" concept from the US, opening his first store in Germany in 1964.

In early July, shortly before Metro unveiled its plans, Asko reported sales up 64 per cent to DM19.9bn for 1991, the increase reflecting the acquisition of the Co-op retail group.

Write-offs on acquisitions and share stakes meant that the parent company reported a loss of DM269m after a pre-tax profit of DM106m in 1990.

Sales this year are likely to be around DM23bn.

Peter Cohen to launch Republic venture

By Alan Friedman in New York

MR PETER COHEN, who in early 1990 was forced out as chairman of the Shearson Lehman brokerage subsidiary of American Express, has been recruited by Mr Edmond Safra to become vice-chairman of the Republic New York banking group to launch its newly approved securities business.

Republic, holding company for New York area commercial and savings banks with combined deposits of $21bn and capital of $2.3bn, won approval last month from the Federal Reserve to conduct a full service securities brokerage business in the US.

Mr Cohen was also named to Republic's board yesterday and as a member of the executive committee.

The new securities subsidiary will begin operations with a staff of 43 people and initial capital of $100m. Its staff could eventually grow to several hundred people.

Mr Safra, the Geneva-based financier, controls about 30 per cent of the Republic group. He and Mr Cohen first met more than 20 years ago and did business together during the 1970s and 1980s. In 1978 Mr Cohen left Wall Street to spend a year working for Republic.

In launching its securities business, which will focus on brokerage and investment advisory activities for Republic's affluent and largely non-US client base, Republic joins the ranks of the few US banks allowed by the Federal Reserve into the securities sector. The first to be allowed were JP Morgan and Bankers Trust.

Mr Cohen, 45, who is also a close friend and former colleague of Mr Jeffrey Keil, president of Republic National bank of New York, said he began working as a consultant to the Safra-controlled institution two years ago.

Mr Cohen said yesterday he expected to concentrate on developing a brokerage business with a strong technology base. This would offer a brokerage execution capability for professional investors and Republic's high net worth individual client base.

He said clients would include investment advisers, hedge funds and foreign and domestic institutions. Services would include collateralised securities lending.

Mr George Soros, the Hungarian-born billionaire investor and a client of the Republic group, will be among Mr Cohen's clients in the new securities business.

Observer, Page 15

TNT shares fall to record low in wake of A$65m loss

By Kevin Brown in Sydney

TNT shares fell 22 cents to an all-time low of 53 cents yesterday after the Australian transport group announced equity-accounted net losses of A$65.1m (US$46.5m) after abnormals for the first quarter.

The reaction surprised analysts as the results were widely expected. They said it partly reflected a lack of confidence on the Australian Stock Exchange, where the All Ordinaries index closed at a 20-month low.

TNT directors faced angry questions at the annual meeting, where shareholders forced a ballot on the re-election of a retiring director. Some called for the resignation of the entire board.

However, Mr Fred Millar, chairman, said the group's financial position had improved since the end of its financial year to June, when it reported net losses after abnormals of A$195m.

Mr Millar said the group expected to return to "substantial" profits in 1993-94, but was unlikely to pay a dividend until the following year. TNT passed the dividend last year to maintain maximum liquidity.

Operating losses fell to A$16.2m in the three months to the end of September, compared with A$20.6m a year earlier.

Ansett, the airline group owned jointly with News Corporation, contributed operating profits of A$3.2m, after two years of heavy losses.

However, Mr Millar said the future for Ansett was "less than clear" following deregulation of the domestic aviation market.

Mr Millar said GD Net, the group's express mail venture with European and North American post offices, continued to report operating losses. TNT's share of GD Net's first-quarter net loss was A$22.7m.

Abnormal losses increased to A$48.8m from A$20.5m in the comparable quarter.

- Sir Peter Abeles, who resigned as TNT's managing director in September, said yesterday he would resign before Christmas as joint chairman and chief executive of Ansett.

Mr Ken Cowley, joint chairman and chief executive, will take over as sole chairman with Mr David Mortimer, TNT managing director, as deputy chairman. Mr Cowley also heads News Corp's Australian operations.

Mr Graeme McMahon, Ansett's general manager, will become sole chief executive.

Observer, Page 15

Marsh & McLennan buys UK group

By Richard Lapper in London

MARSH & McLennan, the world's biggest insurance broker, yesterday announced the £107m ($165.9m) acquisition of Frizzell Group, the UK financial services and insurance group.

The deal, Marsh's most significant expansion in the UK since it acquired CT Bowring, the Lloyd's and London market insurance broker, in 1980, could pave the way for an expansion of marketing of personal insurance through "affinity" groups such as trades unions and leisure groups.

Frizzell and Marsh are market leaders in this field, which can *yield significant cost advantages* over traditional methods.

It will also yield a large profit for 3i, the venture capital company, which has built up a 40.8 per cent stake in Frizzell since 1954. The Frizzell family own a further 40 per cent of the company, with the balance held by directors, staff and the company's pension fund. These shareholders will retain ownership of Frizzell Insurance Brokers, but the rest of the group will become part of Marsh.

At the core of the group, Frizzell Financial Services insures more than 500,000 individuals through organisations such as the Caravan Club, the National Trust, the National Association of Local Government Officers, the National Union of Teachers and Civil Service Motoring Association. Revenues in 1991 were £66m.

The Marsh subsidiary, Seabury & Smith, is the leading manager of insurance programmes for affinity groups in North America and counts employees of corporations such as Ford and Chrysler among its clients. Seabury 1991 revenues were about $150m.

Mr Colin Frizzell, chairman, said: "We had reached a point in our history where we needed to spend more capital on information systems. We needed to re-engineer or update the whole of our business."

Refurbishment of the company's offices in Poole, where most of the 1,450 employees work, will be a priority.

The link would allow Marsh to sell personal lines insurance products to employees of companies with which CT Bowring does business.

Mr Claude Mercier of Seabury said that by combining with Frizzell his group hoped to "achieve savings. The secret of this business is to keep costs to a minimum."

Warburg hit by trading losses and German failure

By Richard Waters in London

AN ABORTED leasing venture in Germany and trading losses stemming from the crisis in the European exchange rate mechanism this summer have cost S. G. Warburg more than £20m ($31m) and dented its reputation as the UK's pre-eminent merchant bank.

Warburg yesterday announced pre-tax profits of £51.2m for the six months to September 30, down from £91.5m in the same period in 1991. Its share price lost 45p to close at 479p.

Warburg's fixed income division lost £10m during the period, due to the upheaval in European bond markets following Danish rejection of the Maastricht treaty and the exit of sterling from the European exchange rate mechanism. Holdings of Ecu bonds accounted for much this loss.

"We would have been running, as we always are, fairly big positions between the markets, and the Ecu was one of the positions we had," said Lord Cairns, chief executive.

The losses were at least partly balanced by foreign exchange profits, which helped the bank's treasury operations to record a strong half, but these had not been substantial enough to cancel out the fixed income losses.

The group's fixed income division has now been merged with its treasury operations and the bank has changed its approach to marketmaking, said Lord Cairns. The group would in future be less willing to trade unless clients were prepared to reward the bank for its commitment. "The balance of accommodation is changing and we need to recognise that."

However, he added that Warburg had no plans to withdraw from markets as a result.

Warburg also announced a loss of £11.6m on its German office equipment leasing business, which was launched in the late-1980s. Credit losses experienced so far had led it to conclude it would never make substantial profits from the market.

The group's profits were bolstered by Mercury Asset Management, its 75 per cent-owned subsidiary, which recorded profits up to £1.5m to £35.5m, after finally writing off its investment in Isosceles with a further £4m provision.

Lex, Page 16; Details, Page 23

T&N to purchase Goetze for DM250m

By Kevin Done, Motor Industry Correspondent

T&N, one of the leading UK automotive component makers, has reached conditional agreement to acquire Goetze, the German components maker in a deal valued at DM250m ($164.40m).

The takeover, which is T&N's first big acquisition in Germany, will increase its worldwide turnover by more than a quarter and will substantially strengthen its position as a leading supplier of engine components.

Goetze, which is privately owned, is the largest producer in Europe of piston rings for supply to vehicle makers as original equipment. It also produces gaskets and has an important manufacturing presence in the US.

Goetze made a profit before interest and tax last year of DM21m on turnover of DM887m. At the end of June, it had 7,838 employees, including 5,643 in Germany. It has six plants in Germany and five in the US, as well as plants in France and in Turkey.

Its profits have fallen sharply in the last three years with net income declining from DM24.6m in 1989 to DM8.5m last year. Profits before interest and tax have fallen from DM75m in 1988 to DM21m in 1991.

T&N had a turnover of £1.36bn ($2bn) last year, which would have risen to £1.71bn with the inclusion of the German group. The combined group would have had sales in Germany of £234m last year compared with £106m for T&N alone.

The UK group said yesterday that Goetze had already embarked on restructuring to improve profitability, including a reduction in the German workforce of around 700.

Mr Colin Hope, chairman and chief executive of T&N, said that Goetze was now "trading approximately at break-even", but it was expected to bring "material earnings benefits" once the restructuring was completed.

Lex, Page 16

Timing the key to taking VAW private

Up to 49 per cent of the German aluminium company may be sold, writes Kenneth Gooding

VAW Aluminium of Germany is being prepared for the private sector. Its parent, VIAG, the large holding company which also has chemical and energy interests, was itself privatised in 1988.

Mr Jochen Schirner, chairman of VAW's management board, says VIAG is preparing to sell up to 49 per cent of the aluminium company. However, although the determination to float VAW is strong, the timing is obscure.

Not only will the move have to wait until the uncertainties surrounding the German economy are removed and stock markets show more signs of strength, it will also depend on the speed at which VAW reshapes itself.

In the past, Mr Schirner points out, size was the only thing that differentiated between aluminium companies. They were integrated companies and "everything and anything to do with aluminium was their business". He insists, however, that "the time for this approach has passed".

VAW's board aims to emphasise the group's distinctive character. "We want to become an aluminium company with our own contours," Mr Schirner says. The idea is to gain the greatest benefits from being based in one of the world's strongest industrial markets – Germany – and in central Europe.

At the same time, "we cannot tackle the whole aluminium business. We still have a number of operations that are not core businesses and we must decide whether to develop them into bigger units or to go into joint ventures or to place them outside VAW."

Most of the present core businesses are of a size which would enable them to stand alone and be competitive, Mr Schirner suggests. The smelter division has a turnover of DM1.3bn ($850m); the rolled products division, DM1.5bn; and the flexible packaging operations, DM0.8bn.

The casting division also has a DM0.8bn turnover but, because of minority interests, VAW does not get 100 per cent.

The extrusions division, with a DM0.5bn turnover, is subject to review, because the market might change dramatically. Car companies are interested in a new construction concept under which vehicles are based on an aluminium "spaceframe" – a skeleton-like metal frame to which other components can be bonded.

Aluminium spaceframes are likely to be made from extrusions but, as Mr Schirner points out, they will be very different from the extrusions currently supplied to

Schirner: 'we cannot tackle the whole business'

the construction market.

"We are in permanent discussions with the big German motor companies," Mr Schirner reveals. "They want to see the whole picture from us: for example, will there be enough aluminium available if they switch; who will recycle the aluminium in cars, and so on."

He insists that there would be no aluminium shortage. While "all-aluminium" cars would at first require more new metal to be produced, the industry would ensure that each individual alloy was carefully recycled. Eventually, about 90 per cent of the aluminium used in cars would be recycled.

The trend to more aluminium in cars might also have an impact on VAW's rolled products division. But, Mr Schirner points out, "it will be well beyond the year 2000 before this is big business for our industry."

VAW has been investing heavily in its core businesses. It is mid-way through a DM1bn expansion at Aluminium Norf in Germany, which it owns jointly with Alcan of Canada. By late 1994 this will boost the plant's capacity from 650,000 tonnes to 1.4m tonnes of sheet, aimed particularly at Europe's fast-growing aluminium beverage can market.

Mr Schirner points out that while aluminium production is moving to those areas of the world which can provide low-cost energy, and preferably environmentally friendly, renewable hydro-electric power, the markets for rolled products are regional. So "Europe is Norf's market".

In keeping with the aluminium production trend, VAW is technical manager and member of the five-strong consortium which has just brought the $1bn Alouette smelter on stream in Quebec. The company will have one-fifth of Alouette's output of 215,000 tonnes a year and this, together with the expansion at the Tomago smelter in Australia, in which it has a 12 per cent stake, will take VAW's own annual capacity to nearly 500,000 tonnes.

Mr Schirner admits there are serious long-term questions about VAW's smelters in Germany, which some analysts suggest have the highest costs in the world. He says these smelters give the company an advantage, however. "We get very defined qualities of metal from our smelters – each slab has a defined quality, it is not commodity aluminium. We make slabs very close to rolled products and make alloys from liquid metal. It is not just a cost question. It also enables us to react quickly to changing customer demands."

VAW's spending is expected to continue at a high level. It has a DM3.7bn programme prepared, but Mr Schirner says part of this depends on the board giving final approval to some divisional plans.

VIAG recently injected DM150m of new capital into VAW to help finance projects just completed and to keep the balance sheet in good shape. Last year VAW benefited from Germany's temporary reunification boom. Mr Schirner says business is now more difficult but there is a "good chance" that 1992 net profits will match last year's DM80m.

Saab says it will need capital injection soon

By Christopher Brown-Humes in Stockholm

SWEDEN'S Saab Automobile says it will need a capital injection from its owners, Saab-Scania and General Motors of the US, within the next three months.

The group says the injection, added to the cost-cutting measures which it announced on Monday and the planned launch of its new model next year, should guarantee its return to profitability.

"These three measures combined will ensure that we do not need to return to our owners for further help," a spokesman said. He declined to quantify the injection, but indicated that both Saab-Scania and GM had agreed to it.

In June 1991 the joint owners ploughed SKr5.5bn ($924m) into Saab, but the contribution this time is not expected to be so large.

On Monday Saab announced 2,000 job losses as part of a wide-ranging cost-cutting programme to save SKr2bn.

It also disclosed a loss of SKr1.3bn for the first nine months, and said it was heading for a deficit of at least SKr2bn for the full year, its fourth consecutive year of losses.

Hafslund buys Dutch pharmaceutical group

By Karen Fossli in Oslo

HAFSLUND Nycomed, the Norwegian radiology products group, is paying $94m for Christiaens International, a Dutch pharmaceutical group.

In the last three years Hafslund has spent NKr3.2bn ($497m) on expansion, mainly in Europe, and last month acquired a small Spanish pharmaceuticals company.

Last year some 77 per cent of group turnover came from outside Norway, but this will increase to more than 80 per cent with the latest acquisitions.

Yesterday's deal strengthens the group's sales and distribution network while establishing a solid presence in the Benelux region.

Christiaens, which is being acquired by Hafslund's Nycomed Pharma unit – itself the largest pharmaceutical supplier in Norway and Denmark – is a holding company for a group of pharmaceuticals companies in Belgium and Holland.

It has a workforce of 258 and expects turnover for 1992 to rise to NKr300m from NKr260m in 1991. Hafslund will market its medical imaging and therapeutics products through Christiaens' distribution network.

Renault chief dismisses idea of Volvo merger

RENAULT has ruled out any merger with Swedish vehicle maker Volvo in the near future, in spite of cross-shareholdings, Reuter reports from Stockholm. "I think we have to increase co-operation within the current ownership [structure]," Mr Louis Schweitzer, Renault chief executive, said.

He said a new French law would be needed to change the ownership structures of both companies. Renault has a 25 per cent equity stake in Volvo Car and 45 per cent in Volvo Truck. Volvo owns 20 per cent of Renault and 45 per cent of the French group's trucks and buses company.

High interest rates help Procordia to 8% rise

By Christopher Brown-Humes

PROCORDIA, the Swedish food and pharmaceutical group, increased profits by 8 per cent in the first nine months to SKr3.33bn ($554.62m) from SKr3.08bn.

The group benefited from a big increase in net interest income, as a result of the high level of Swedish interest rates, and a strong performance from its Kabi Pharmacia unit. Sales and operating income climbed 1 per cent to SKr29.16bn and SKr2.98bn respectively.

Kabi Pharmacia improved operating income by 17 per cent to SKr1.94bn, while sales surged 13 per cent to SKr9.71bn. The acquisition of the Italian group Pierrel accounted for 7 per cent of the increase.

However, sales dipped in the third quarter after health-care authorities in some of the group's key markets cut their expenditure.

Pharmacia Biotech fared badly, with operating income down 37 per cent at SKr49m. The company blamed falling exchange rates in important markets. Income at Procordia Invest fell 51 per cent to SKr180m, mainly because its involvement in hotels has produced heavy losses.

Head of BNZ quits in wake of takeover

By Terry Hall in Wellington

MR LINDSAY PYNE, the man credited with returning Bank of New Zealand (BNZ) into profit after the near-disastrous losses of the 1987-1989 period, announced his resignation as managing director yesterday, only five days after the National Australia Bank (NAB) announced it had succeeded in buying it.

Mr Pyne was appointed to head BNZ in 1989 when the first signs emerged that the bank was faced with large scale losses. He led its restructuring and took considerable political and shareholder flak when he insisted on making public the full extent of its bad debts, totalling NZ$2.8bn (US$1.48bn at current rates).

He said that while other banks might succeed in hiding these for a time, in the end this would only slow the bank's recovery.

Mr Pyne, a New Zealander who formerly worked for Citibank, said that he was retiring because "the job is done" although NAB has said publicly it wants him to continue.

He said: "BNZ is now in safe hands. I made the decision to go a long time ago, once its recovery was complete and its future was secure."

Mr Pyne's special field of expertise was restructuring companies. He restructured Broadbank, a leading New Zealand finance company, and brought to profitability Postbank, which was sold to ANZ Bank.

Mr Pyne's resignation takes effect from November 20, but he will remain a consultant in the meantime.

He intends to continue in restructuring work, though he said his next job would not necessarily be in handling a bank or financial institution.

● Standard & Poor's, the international ratings agency, has raised to A1 plus from A3 the short-term certificate of deposits of BNZ to reflect its takeover by NAB, Reuter reports from Wellington.

Separately S&P Australian Ratings confirmed that it had raised BNZ short and long-term ratings to AA/A1 plus from BBB/A3.

S&P also removed BNZ from its creditwatch.

"Completion of the acquisition by NAB has made BNZ a strategically important member of a strong regional and international bank," S&P added.

Conditions of the purchase also gave additional protection from the previous two main shareholders, the New Zealand government and merchant bank Fay, Richwhite, over further provisioning requirements for some outstanding loans and litigation.

Chinese communism's capital steel project

Simon Holberton on how Shougang Corporation has exploited its new autonomy

Last summer Shougang Corporation, the Chinese steel company also known as Capital Steel, played host to an important visitor.

Deng Xiaoping, China's 88-year-old leader, paid a visit to the company's headquarters on the outskirts of Beijing. Today, photographs, some 15ft by 5ft, adorn the company's premises commemorating his visit.

But Shougang, China's third largest steel maker, got much more out of Deng's visit than just a photograph. Company officials lobbied him for greater autonomy from China's central planning bureaucracy and won.

On October 10 the state council, China's cabinet, gave Shougang full autonomy over capital investment, power to conduct its own foreign trading relationships and approval to set up its own bank. From the beginning of next year it will not have to fulfil state-determined production targets and may sell all its steel products on the free market.

Shougang has not been slow to make the most of its new autonomy. In the past month it announced three acquisitions and, according to the company, more are to come.

● On October 23 it joined with Cheung Kong, Mr Li Ka-Shing's Hong Kong property and investment company, to acquire a 77 per cent interest in Tung Wing Steel – a Hong Kong steel trader and distributor of steel products for the construction industry – for about HK$240m ($31.05m). The deal leaves Shougang holding a 51 per cent stake in Tung Wing.

● On November 2, Shougang said it had bought, for an undisclosed sum, the Number 2 converter steel-making plant of California Steel Industries. The company plans to send 300 workers to California to dismantle the plant and ship it to Shougang's Qilu Steel Works in Shandong province.

● The US deal was followed on November 5 with the announcement from the Peruvian government that Shougang was the successful bidder for Peru's state-owned iron producer, Hierro Peru. Shougang topped the competition – from Switzerland, Chile, Mexico and Japan – with an offer of US$120m. It has pledged to invest a further US$150m in plant and assume Hierro's debts of US$41.8m.

These announcements are likely to be followed by Shougang establishing a larger presence in Hong Kong. Mr Pan Huayuan, the company's vice-president and senior economist, said recently the company planned to establish its international headquarters in the colony because of its role as a centre of finance, information and communications.

He also said the Shougang planned to buy a bank in the Hong Kong. This would complement the bank it has just been given approval to establish on the mainland.

He said the company had looked at Overseas Trust Bank – which was rescued by the Hong Kong government in the early 1980s and has been put up for sale – but would not be drawn on whether it had made an offer. Whatever bank Shougang buys in Hong Kong "it all depends on price", he said.

Deng Xiaoping: lobbied for greater autonomy

Li Ka-Shing: joined Shougang to buy stake in HK trader

Shougang is at the centre of China's plans to modernise its steel industry – one of the only steel industries straining to grow rather than suffering the pain of retrenchment.

China produces about 70m tonnes of steel a year and plans to increase capacity to 100m tonnes by the end of the decade. But much of the industry uses outmoded production equipment; according to mainland Chinese reports, 60m tonnes of current capacity is in need of retooling.

Shougang produces 10m tonnes a year and has an ambitious programme to double capacity in seven years. It has two main sites – one in Beijing and the other in Shandong, for which the Californian mill is destined – and has introduced fairly modern blast furnaces from Belgium. Recently it commissioned its number 4 blast furnace at its Beijing works at a capital cost of Yn410m ($73m).

The company employs about 200,000 workers, but only a quarter are directly engaged in the steel-making business. Shougang – like many of China's large state-owned industries – is a large vertically integrated organisation that provides cradle-to-grave welfare for its employees.

It owns and operates iron ore and coal mines in China, although it is importing some Australian iron ore for its blast furnaces; it owns mechanical engineering businesses, which make the machinery it uses; a construction company which builds its plant; and a shipping line. About 60 per cent of retained earnings – equal this year to Yn1.2bn – is used for business expansion.

Shougang, however, devotes 20 per cent of its retained earnings to welfare – which this year will amount to about Yn400m.

According to Mr Pan, employees at Shougang pay just 1 per cent of their wages – which across the work force average Yn324 a month in 1991, including bonuses – for housing. That comes to 62 US cents a month for rent, at current official rates of exchange.

He is particularly proud of the company's record in providing new housing for employees. "Over the past 13 years we have built 1.93m square metres of housing for employees," he says. "That is twice the area of housing we had built before the reforms were started."

And there is the rub. A lot has been made in the Chinese press of breaking the cradle-to-grave employment system in Chinese state industry. There is talk of hiring and firing employees, demoting those executives who do not perform, while paying all on a performance-related basis.

Such ideas were written into Communist Party policy at its 14th congress in Beijing last month. But, even in one of China's showcase enterprises, these ideas meet resistance.

Mr Pan balks at the idea of redundancies. He finds the idea repellent and would prefer to deal with non-performing workers by cutting their bonuses, not jobs. Like a latter day Micawber he has faith that growth will pay the bills.

Thai Airways makes bold profit forecast

By Victor Mallet in Bangkok

THAI Airways International, the national airline partially privatised this year, has predicted its net profits will nearly double to Bt5.71bn ($224m) in the year to September 30 1993, from Bt3.02bn last year.

Some stockbrokers said yesterday's forecast was optimistic but added the company might be including planned aircraft sales in the figures, as it has in the past. Thai is expected to release further details to the stock exchange of Thailand next week.

The company predicted total revenues would rise in the current year to Bt64.44bn, from Bt55.08bn.

This month the new civilian-controlled board of Thai has announced further changes in senior management, demoting military men associated with the old regime of the Thai air force.

If Thai's profit forecast is accurate, the company's prospective price/earnings ratio falls to around 14, making its shares more attractive to foreign buyers, who have concentrated on the cheaper shares of other regional airlines.

"No-one really knows how to forecast this monster," said one stock analyst yesterday, "but there's a lot of built-in growth in this company if they start cutting costs."

MALAYSIAN Airline System's one-for-one rights issue of 350m M$1 shares at M$5 each has been oversubscribed by 3.9 times, Reuter reports from Kuala Lumpur.

Aseambankers Malaysia, the adviser and managing underwriter of the issue, said that at the close of the rights issue on November 2, applications for a total of 363.66m new MAS shares were received.

The issue, which will double MAS's share capital to M$700m, will raise M$1.75bn (US$689m) to part-finance its fleet expansion programme.

Arnotts rejects legal action

ARNOTTS, the Australian bakery group, will not take legal action to prevent Campbell Soup, the US foods group, from sending takeover documents to Arnotts shareholders, but it believes the documents fail to make proper disclosures, Reuter reports from Sydney.

"We considered asking for an injunction to prevent the offers going out in this unsatisfactory form, but we decided it was not in the interest of shareholders to raise a barrier between Campbell and the offerees," Arnotts said.

Campbell, which owns 33 per cent of Arnotts, is offering A$8.80 a share for Arnotts, valuing the company at A$1.23bn (US$847m).

Arnotts' shares closed at A$9.18 in Australia yesterday.

HL&H tumbles 51% on fall in consumer spending

By Philip Gawith in Johannesburg

THE deteriorating state of the South African economy and the country's severe drought saw attributable earnings at Hunt Leuchars & Hepburn (HL&H), the industrial company in the Rembrandt group, fall by 51 per cent in the six months to end-September, compared with the same period a year earlier.

Turnover rose marginally to R331.9m ($114.4m) from R325.7m, but pre-tax profits fell to R33.1m from R48.05m. Attributable profits dropped to R23.6m from R47.8m due to a sharp turnround in income from associated companies where losses of R1.8m were incurred against profits of R12.1m in 1991.

Mr Neil Morris, chief executive, described the results as "very disappointing", saying all the companies were affected by the continuing decline in consumer spending.

Of the subsidiaries, Robertsons increased its contribution to attributable profits to 62 per cent from 31 per cent in 1991.

However Transvaal Sugar's performance was hit by the drought and expects it will only produce 140,000 tonnes of sugar this season compared with 220,000 in 1991/2. Its contribution to profits dropped to 34 per cent from 36 per cent.

Mr Morris said the two associates, Rainbow Chickens and HL&H Timbers, performed unsatisfactorily. Rainbow recorded attributable losses of R18.9m against profits of R5.7m. Rainbow's share of HL&H earnings fell to a negative contribution of 32 per cent against a 9 per cent contribution in 1991. HL&H Timber suffered from local demand sinking to its lowest level in 20 years.

Mr Morris said although trading conditions in the short term were expected to remain difficult, second-half earnings should improve, based on the continued good performance of Robertsons, the expectation of a return to profitability at Rainbow and an improvement in the timber operations. Overall earnings for the year to March are likely to be below those of the 1992 financial year.

The Equitable hit by charge for change of status

By Nikki Tait in New York

THE EQUITABLE, the large but ailing US life insurance company of which France's Axa *now owns a 49 per cent* stake, yesterday reported an after-tax loss of $35.2m in the three months to end-September.

The third-quarter figure, however, comes after an extraordinary charge of $55.6m. The company said this reflected the final expenses of its recent "demutualisation" – the complex process of switching from a policyholder-owned to a shareholder-owned company, with an associated share flotation.

In the same period of 1991, the after-tax loss was $220m, after an $11.1m extraordinary charge and a $239.5m deficit from discontinued operations.

The Equitable said yesterday that profits from continuing operations, before extraordinary charges, slipped from $30.6m to $20.4m in the third quarter, but stand at $300,000 for the first nine months of the year, compared with a deficit of $146.5m in the same three quarters of 1991.

After extraordinary charges of $101.3m – again, demutualisation costs – the after-tax loss in the first nine months of 1992 is $101m.

During the third quarter, insurance operations made an operating profit of $16.8m, *ahead of investment gains* and losses. This compared with a $400,000 profit in the same period of 1991. The company said there were "strong earnings" in the life and annuity operations, partly offset by losses on the disability lines.

On the investment services side – which takes in the Donaldson, Lufkin & Jenrette brokerage business and Alliance Capital Management – after-tax profits rose strongly to $47m, compared with $27.4m in the same period of 1991.

However, The Equitable registered a $2.6m after-tax loss on its insurance investment portfolio. This compared with a $29.8m gain a year ago, including the gain on the sale of an insurance subsidiary, and came after a further $64.8m after-tax addition to valuation allowances and asset write-downs.

Last year, The Equitable took a substantial net write-down and increase in asset valuation allowances, amounting to $548m, as it attempted to put its investment portfolio on a more conservative footing.

GM announces plans to raise up to $1bn

By Martin Dickson in New York

GENERAL Motors, the loss-making US vehicles group in the throes of a management upheaval, yesterday announced preliminary plans to raise up to $1bn through several tranches of fixed-rate preference shares.

The company has already raised some $4.6bn through common and preference stock issues this year to bolster its cash resources.

GM, announcing it had filed a shelf-registration, or pre-clearance request with the Securities and Exchange Commission, gave no timetable for any new issues, but said it expected to be in a position to make an initial offering in the next few weeks.

GM said the proceeds would be used for general corporate purposes and added that fixed-rate preference stock currently represented an attractive means of providing equity finance to strengthen the balance sheet and provide financial flexibility.

SNC declines to C$2.8m

By Robert Gibbens in Montreal

SNC, the international engineering and construction group, saw earnings fall to C$2.8m (*US$2.2m*), or 19 cents a share, in the first nine months, from C$6.1m, or 51 cents, a year earlier. It attributed the decline to the North American recession and delays in overseas work. Revenues were C$492m, against C$370m.

Third-quarter profit was C$2.1m, or 14 cents a share, against C$2.4m, or 19 cents, on revenues of C$173m, against C$151m.

SNC has cut engineering and administrative staff and will feel the financial benefits next year. Its manufacturing activities have declined to about 25 per cent of the total business.

It is looking for more international work and has won engineering-construction contracts in Mexico, Africa, Indonesia and Russia.

Wang sees loss as revenues tumble

By Louise Kehoe in San Francisco

WANG Laboratories, the US office computer systems company that is struggling to emerge from bankruptcy protection, said its revenues for the first fiscal quarter declined about 22 per cent and projected a loss for the quarter.

Revenues for the quarter were approximately $360m, down from $461m in the same period last year.

As expected, the first quarter will reflect a loss from operations, the company said, because anticipated cost reductions from the continuing restructuring did not take full effect during the quarter.

In the first quarter of fiscal 1992 Wang suffered a loss of $9.8m, or six cents per share.

"We are encouraged by our first-quarter revenues," said Mr Richard Miller, chairman and chief executive. "They show a continued commitment to the company from our customers and are in line with our initial revenue estimate for the year of $1.4bn, which was made when we filed for Chapter 11 protection in August."

The company said it expected to file revised financial statements for fiscal 1992 early next month. At the time of its bankruptcy filing Wang reported an estimated loss of $139.2m, or 82 cents per share, on revenues of $1.9bn. The company added that it had postponed the date of its annual meeting.

CanPac to cut stake in US arm

By Robert Gibbens

CANADIAN Pacific is reducing its 45 per cent interest in United Dominion Industries, a US-based engineered products affiliate, as part of its plan to sell peripheral assets.

United, formerly Dominion Bridge, was a star performer for Canadian Pacific in the late 1970s as it pursued a string of US acquisitions but the harsh economic climate has forced it to reduce the size of its business.

The Canadian group is raising C$105m (US$83m) through an issue of 8.5 per cent debentures convertible into United common shares by December 15 1995.

If all the debentures were exchanged Canadian Pacific's interest would fall to 17.5 per cent from 45 per cent.

Each C$1,000 principal debenture would be exchanged into 95.238 United shares.

McDonald's puts beef into its expansion

Fast-food outlets are planned in the world's far-flung corners, writes Laurie Morse

The appetite for hamburgers seems immune to politics and recession. McDonald's, the world's largest chain of fast-food restaurants, has successfully delivered its brand of capitalism to Moscow, introduced foil-wrapped ketchup to France, and may even offer its formula meal of ground beef, fried potatoes and a cola in India's largest cities before the end of the decade.

It operates in 62 countries, some as remote as Macau (two stores) and as politically unstable as Yugoslavia, and has long-term objectives to reach into every corner of the world. After gaining a foothold in western Europe, China and Russia, the company plans to open in several middle eastern countries in 1993.

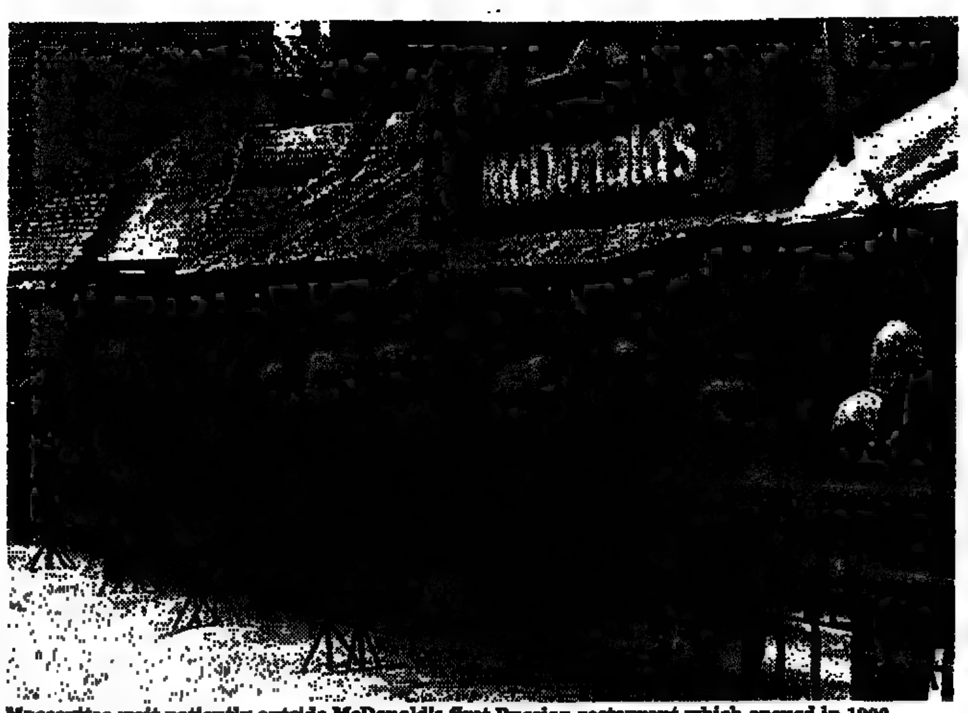
Aside from a teryaki burger in Japan, and "McSpaghetti" noodles in the Philippines, McDonald's rarely diversifies its overseas menus beyond burgers, potatoes and drinks.

International customers are seldom offered breakfast, salads, or any of the other competitive innovations seen at McDonald's restaurants in the US. Those frills are saved for mature markets that need an extra boost in market share.

But those customers are vital if McDonald's, which has seen flat sales growth in its US restaurants this year, is to maintain its 10-year history of 14 per cent compound earnings growth.

International operations account for 40 per cent of the Illinois-based giant's annual earnings, and are projected to reach 50 per cent by 1995.

In 1991 McDonald's earned $860m, or $2.35 per share, on worldwide sales of $19.9bn while in the third quarter it reported earnings of $289.2m, or 79 cents, on sales of $5.8bn.



Muscovites wait patiently outside McDonald's first Russian restaurant which opened in 1990

The company does not release sales figures for individual countries and will not say if its operations in regions such as eastern Europe have yet paid back the 10-year lead time required to arrange suppliers and government approvals.

However, Mr James Cantalupo, president of McDonald's International, says expansion into the more far-flung outposts is vital. "All of these economies are growing. I don't see any market where we can't continue to accelerate our growth."

Market saturation and the appeal of things American in newly opened economies help explain why McDonald's foreign units produce nearly twice the average annual sales of their domestic counterparts.

While the US is nearing hamburger saturation – there is one McDonald's outlet for every 29,000 people in the US, and plenty of fast-food alternatives – there are millions of potential customers for each new McDonald's in countries such as Poland and China.

Despite its global presence, the bulk of McDonald's foreign earnings comes from just six countries. Canada, Japan, England, Germany, France and Australia produce 80 per cent of the chain's overseas income.

That profile has caused some analysts to believe that its earnings growth will suffer from the recessions in the UK and Canada, and growing weakness in Japan, where the company has 912 restaurants, its largest distribution outside of the US.

"Japan is the big question mark," says Ms Caroline Levy, a Lehman analyst. "Twenty to thirty per cent of McDonald's foreign income comes from Japan. The economy there is weak, the market is much more competitive than it used to be, and margins are under pressure."

McDonald's sales outside the US were up 23 per cent in the third quarter, and 18 per cent for the first nine months of 1992. With 200 more foreign restaurants scheduled to open in the fourth quarter, sales are bound to accelerate towards the year-end, although not at the annualised pace projected a year ago.

Still, Mr Cantalupo's plans are long-term. He says the contributions of locations outside the "big six" countries are important to boost profit growth and will become increasingly important.

He remains committed to eastern Europe and Moscow, where he plans to invest $100m in the next three years to bring his restaurant count there to 100, and projected sales to $250m. Mr Cantalupo also plans to double McDonald's presence in Europe within three years, and nearly triple outlets in Latin America.

That would mean 1,000 new European hamburger stores, and 350 new outlets south of the US border. Overall, McDonald's plans to open foreign stores at a rate of 500 to 600 per year.

Mr Peter Oakes, equities analyst for Merrill Lynch in New York, says those plans are ambitious, but realistic. Using even his most conservative calculations, Mr Oakes says McDonald's is far from reaching market saturation in most parts of the world. "This is just the tip of the iceberg," Mr Oakes says. "Just think about China."

Making a rough estimate, Mr Oakes says investors have gained about three cents per share in annual income for every 100 new foreign restaurants McDonald's has opened.

Wal-Mart improves 24% in third quarter

By Nikki Tait

WAL-MART Stores, the largest US retailer in sales terms, yesterday kept up its recession-beating progress, with a 24 per cent increase in third-quarter profits to $437.8m after tax.

The increase was scored on sales up by 28.7 per cent at $13.7bn, and translated into a 23.6 per cent improvement in earnings per share, at 38 cents.

The Arkansas-based discount retailer has now posted sales of $38.4bn for the first nine months of the year, compared with $30.2bn in the same period of 1991, with after-tax profits reaching $1.24bn, against $1.01bn.

That progress, said Mr David Glass, the company's chief executive, should position the company well "to meet our objectives for the approaching holiday selling season and the balance of the year".

In part, Wal-Mart's growth comes from an aggressive store opening programme, although same-store sales growth has also been running at double-digit rates in the first 10 months of 1992.

During the third quarter alone, the group opened 50 new Wal-Mart outlets – closing one – and 10 Sam's Clubs, the chain of no-frills but ultra-cheap warehouse clubs.

● International Flavors & Fragrances, the US fragrances group, will take a pre-tax charge of about $20m in the fourth quarter and full-year for consolidating its European production facilities, and a pre-tax charge of about $32m in the first three quarters as a result of adopting new accounting standards, AP-DJ reports.

Hysla to build first mini-mill in Latin America

By Damian Fraser in Mexico City

HYSLA, the steel subsidiary of the Mexican conglomerate Grup Alfa, is to build a new steel plant with a capacity of 730,000 tonnes per year at an estimated cost of $400m. The plant will increase Hysla's steel production by 73 per cent.

The mill should be ready by early 1995, and will be the first thin-slab casting plant, or mini-mill, in Latin America. It will be financed by a mixture of Eximbank loans, foreign debt and by Alfa's own resources.

The company said the new plant will enable it to improve the quality and range of its steel products and achieve one of the lower costs in the industry, thus allowing it to compete against imports.

JC Penney surges to $186m at nine months

By Nikki Tait

J. C. PENNEY, the large Texan retail group, yesterday reported a virtual 60 per cent surge in third-quarter results, with after-tax profits reaching $186m, compared with $116m in the same period of 1991.

According to Mr William Howell, chairman, the group saw improvements across the board, as stores, catalogue operations and life insurance interests all posted "strong earnings performances as compared with last year".

The group's retail sales during the quarter were up by 10.3 per cent at $4.34bn, and gross margins were virtually unchanged year-on-year.

However, the group's selling, general and administrative expenses, as a percentage of retail sales, improved "significantly," suggesting that costs are under firm control.

Profits for the first nine months of the year were $402m against $227m for the comparable period last time, and Penney's shares rallied $¾ to $76½ on the news.

● The Limited, which operates specialist chains ranging from Victoria's Secret to Abercrombie & Fitch, also posted a 10 per cent increase in third-quarter profits at $80m after tax.

Sales were 12.4 per cent higher at $1.43bn.

However, the company admitted performance had varied across its chains, with the Structure and Lane Bryant faring well, for example, but Victoria's Secret Stores experiencing "a significant drop in third-quarter profitability due largely to fashion errors."

The Limited's shares eased $⅜ to $23⅜ yesterday morning.

Skandia scales down reinsurance operations in US

By Christopher Brown-Humes in Stockholm

SWEDISH insurer Skandia has begun scaling down its North American reinsurance operations, after rejecting a $550m offer for the business from the US investment group John Head & Partners.

Skandia said it intended to cut annual net premiums at Skandia America Corp, its North American non-life reinsurance unit, to $100m a year from the current $450m over the next two years.

SAC, currently the eighth largest reinsurer in the US, has already announced plans to sell its surety portfolio to Nac Re, another US reinsurer.

Skandia said it had decided to break off talks with John Head because of disagreements over pricing and uncertainties as to whether the deal could be completed.

It said the structure of the transaction would have given it a continuing exposure to reinsurance through the retention of preferred stock.

SAC, which has an equity of $400m, is expected to focus primarily on casualty business.

● US credit rating agency Standard & Poor's yesterday downgraded the senior debt, claims-paying ability, and commercial paper of a number of companies within the Skandia group.

The move "reflects continued upheaval in Scandinavian financial markets, an expected further decline in asset values, and the company's inability to significantly restructure its debt maturity schedule," said S&P.

Skandia International Insurance Corp, Skandia American Reinsurance Corp and American Skandia Life Assurance Corp have had their claims-paying ability downgraded to 'BBB' from 'A'.

Skandia Capital AB's senior debt was lowered to 'BBB' from 'A' and the commercial paper ratings on Skandia Capital AB and Skandia International Capital Corp to 'A-3' from 'A-2'.

Chevron to cut head office costs by $200m

By Alan Friedman in New York

CHEVRON, the fourth biggest US oil and gas group, unveiled plans to cut annual corporate headquarters operating costs by $200m, or 30 per cent, as a result of reductions in staff.

The San Francisco-based company said the decision – part of a broader programme to reduce total group expenses – was taken following a six-month long study.

The changes will result in a reduction of about 1,000 positions, or 28 per cent, from the level of headquarters staff at the beginning of this year.

Since about 550 corporate staff employees have already opted for early retirement, the net number of jobs being cut will be about 450. The job cuts will occur in more than a dozen departments, including tax, treasury, legal and human resources.

The oil and gas group also announced a separate measure to reduce costs by restructuring its in-house technology company.

This move is expected to save $35m to $45m a year and will result in the reduction of another 500 jobs, or 22 per cent of the total.

Mr Kenneth Derr, Chevron's chairman, said that he regretted "that these changes will leave some employees without jobs".

He said the cuts reflected the business environment.

Chevron's third-quarter net earnings, announced last month, were 21 per cent higher at $378m.

Westpac to implement recovery strategy

WESTPAC, the troubled Australian bank, is planning a fast recovery programme and a strategic redirection of its core retail and corporate banking business in Australia and New Zealand, Reuter reports from Sydney.

Mr Frank Conroy, managing director, said yesterday that this followed a review of the bank's strategy and recovery programmes by McKinsey, the international management consultancy.

"Through these moves, the bank is seeking to further strengthen its capital ratio, to rebuild market confidence and significantly boost the underlying performance of its businesses," he said.

Westpac's board had endorsed further development of the recovery strategy implemented in the past few months, Mr Conroy said. This involved more closely defined strategic priorities, an accelerated recovery programme to improve performance and top-level management changes.

The bank would streamline and cut the size of the head office, sell non-core assets outside institutional and retail banking and create an organisation to manage problem assets.

Mr Conroy said Westpac would also rejuvenate its customer focus, improve efficiency in Australia and New Zealand and reorientate institutional banking. It would also build on its strong position in global financial markets and eliminate corporate lending that did not meet strategic or financial criteria.

He said a team of executives had been chosen to form the office of the managing director to manage a fast recovery.

Westpac's share price fell to a nine-year low of A$2.396 on Friday after it revealed an extra tax liability of A$115m ($82.1m) in the US and said the final dividend could be halved from the previous forecast of 12 cents a share. This prompted widespread investor criticism and attracted the attention of regulatory authorities, including the Australian Securities Commission

Montgomery in the limelight

Patrick Harverson reports on a small but ambitious securities firm

More than 700 of the most influential money managers in the US, representing over $1,000bn in assets, assembled in San Francisco recently for an annual conference that has become one of the most eagerly attended events in the investment industry calendar.

The money managers were there for presentations and meetings with senior executives from a select group of small, fast-growing companies that are forging a name for themselves in several key industries.

Although it is one of the country's finest cities, San Francisco was not chosen as the location because of its beauty, but because it is home to Montgomery Securities, the small but ambitious securities firm that has been hosting this get-together for more than 20 years.

The firm's sole office is in the pyramid-shaped Transamerica building that dominates San Francisco's skyline.

As a private partnership, Montgomery rarely attracts much attention alongside its bigger east coast rivals. Its annual securities investment conference, however, gives it an opportunity to enjoy the limelight, if only for a few days.

Outside the industry, Montgomery is probably best known for its successful rebellion last year against the New York Stock Exchange's proposal to open trading half an hour earlier each day. So effective was the Montgomery-led rebellion that within a week the NYSE was forced to abandon its plans.

Inside the industry, the firm is known as a nimble, aggressive broker/dealer of growth stocks from five specialised industry areas: technology, consumer products, financial services, healthcare and environmental services.

Although Montgomery's raison d'etre is institutional broking and market-making, the firm has been working hard – like almost every other in the industry – to develop a presence in the increasingly competitive, but profitable asset management business.

Unlike others in the industry, Montgomery has no proprietary or program trading business. The firm likes to make the point that because it does not trade for its own account, there are no conflicts between its own and its clients' interests.

This may go down well with its institutional clients, but it cuts the firm off from a potentially huge source of revenue. Some of the biggest profits earned by securities houses this past year have come from the trading of securities for their own account. Montgomery, however, is a private partnership, and as such lacks the capital to support a significant proprietary business.

Consequently, the firm concentrates on three core businesses. The most important is equity brokerage, where Montgomery offers sales and trading services to its institutional and a few private clients. Montgomery is regularly among the top five equity traders of stocks in four of its five specialist sectors, and recently opened the largest trading floor outside New York.

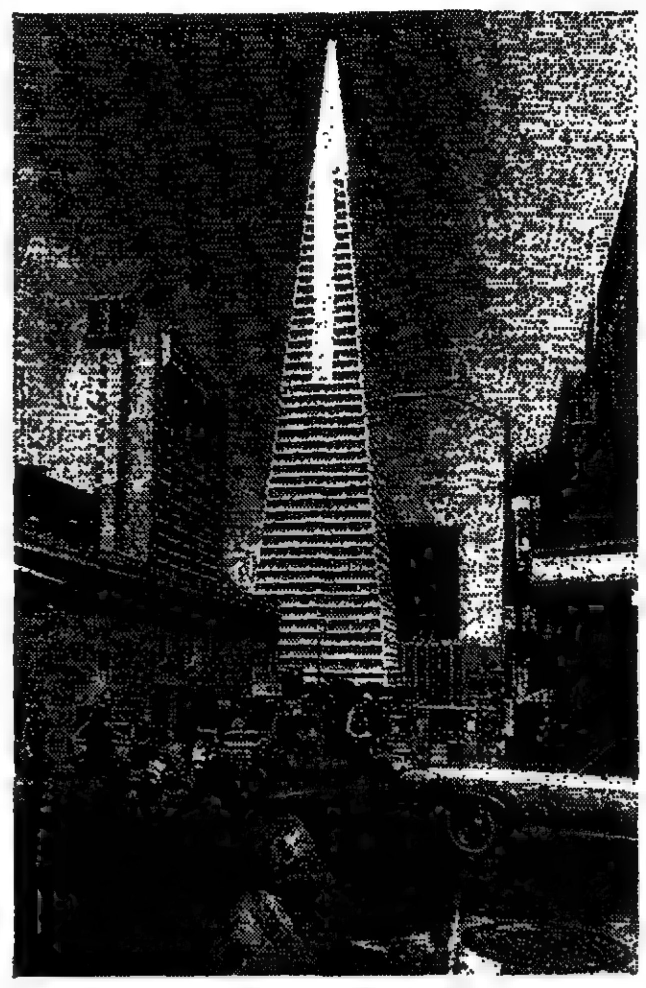
Its corporate finance business, which includes mergers and acquisitions and private placements, keeps the firm among the top echelon of stock underwriters in its sectors. Like a few other San Francisco-based firms (such as Hambrecht & Quist and Robertson, Stephens), Montgomery is well-known for handling technology and healthcare company flotations, or IPOs (initial public offerings).

It's most famous client is pharmaceuticals group Amgen, which it took public in 1983 and which is now worth $8.6bn.

Montgomery has reaped the benefits, along with the rest of the industry, of the extraordinary underwriting boom of the past 18 months.

Mr Tom Weisel, Montgomery's long-standing chairman, says: "As the underwriting calendar took off last year, our firm went from $100m to $170m in revenues, and it should be about $200m this year."

Montgomery's smallest, but fastest-growing, business is asset management, which it is building up as part of a strategy to use fee-based business as insurance against volatile revenues from market-related activities, such as broking and underwriting.



A private partnership in San Francisco's Transamerica pyramid

Montgomery began to construct an asset management operation 18 months ago, and has $750m of assets under its wing, the bulk in a growth fund (which performed best last year among US small company mutual funds). The firm recently launched an emerging markets and a fixed-income fund, and hopes to have $1bn in its custody by year-end.

The ultimate aim, says Mr Weisel, is to construct Montgomery's revenue base like a three-legged stool. One leg will be brokerage, the second underwriting and the third asset management, which he hopes will be a $10bn or $20bn business within the next five to eight years.

The firm is as nationally minded as any on Wall Street. Its clients are spread across the US, with the bulk in New York and Boston, and Montgomery works hard at keeping its finger on Wall Street's pulse. Its role last year in forcing the NYSE to abandon its early trading plans was a case in point.

As Mr Weisel explains: "We don't think the stock exchange did a thorough job. After talking to all our institutional clients across the country, we felt that expanding trading hours was not going to expand trading volume ... and it was going to wreak havoc on west coast firms. We felt pretty strongly about it, and we had to take charge."

Speculation over Ford management shake-up

By Martin Dickson in New York

WILL Ford Motor, the second largest of Detroit's big three vehicle manufacturers, follow rivals General Motors and Chrysler and remake its top management team before the year is out? If so, might a British-born executive emerge as heir-apparent to the chairman?

That is one of the hottest topics of debate in the US motor industry, with some analysts suggesting Ford could move as early as this week to anoint an heir-apparent to Mr Harold Poling, the company's 67-year-old chairman and chief executive, who is due to retire next year.

The favoured candidate of the Detroit rumour-mill is Mr Alex Trotman, 59, the British-born executive vice-president in charge of Ford's North American operations.

Mr Trotman, who joined Ford in Britain in 1955 as a student trainee, rose on the product planning side. He is the only member of the group's senior executive team to have run its vehicle operations in the three major markets – North America, Europe and Asia/Pacific. Until just a few months ago, the front-runner had been widely assumed to be Mr Allan Gilmour, 58, the urbane executive vice-president in charge of worldwide vehicle operations.

However, some analysts claim to have detected growing enthusiasm on the Ford board for Mr Trotman, who reports to Mr Gilmour. Mr Trotman's background is in vehicle manufacturing, while Mr Gilmour reached the top through Ford's finance operations.

The financial and engineering sides of the industry have often vied for the top jobs – hence the phrase "bean counters versus car guys".

Ford's board is due to hold two meetings before the end of the year – the first is on Thursday – and analysts suggest it may decide to set a succession in motion, to ensure a smooth transition. A spokesman refused to comment.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on [illegible]: Pool purchase price £/MWh	Final Prices for Trading on [illegible]: Pool purchase price £/MWh	Pool selling price £/MWh
0030	20.32	17.64	17.64
0100	[illegible]	[illegible]	[illegible]
0130	[illegible]	[illegible]	[illegible]
0200	30.00	20.57	22.94
0230	23.52	21.15	23.08
0300	23.52	21.15	23.09
0330	20.68	17.71	17.71
0400	20.32	17.70	17.70
0430	18.04	[illegible]	[illegible]
0500	18.04	17.64	17.64
0530	17.70	17.70	17.70
0600	18.80	17.70	17.70
0630	20.32	17.79	17.79
0700	23.23	[illegible]	[illegible]
0730	23.20	[illegible]	25.76
0800	[illegible]	[illegible]	[illegible]
0830	[illegible]	25.10	27.34
0900	27.60	28.81	31.11
0930	27.58	[illegible]	[illegible]
1000	27.58	[illegible]	30.78
1030	27.59	25.42	[illegible]
1100	27.59	25.64	29.70
1130	34.90	[illegible]	29.75
1200	34.20	[illegible]	29.75
1230	34.50	25.61	[illegible]
1300	24.88	24.65	[illegible]
1330	27.18	24.59	[illegible]
1400	27.18	24.48	25.48
1430	24.52	21.73	21.73
1500	[illegible]	21.73	21.73
1530	24.39	[illegible]	21.74
1600	27.08	24.59	[illegible]
1630	24.77	25.02	27.57
1700	[illegible]	25.97	29.10
1730	[illegible]	28.61	30.76
1800	30.20	28.49	30.84
1830	32.88	29.17	31.59
1900	29.13	29.45	31.81
1930	28.61	28.30	31.61
2000	27.77	28.38	30.59
2030	[illegible]	24.48	25.44
2100	23.29	23.83	25.78
2130	23.35	23.83	25.78
2200	[illegible]	23.60	25.68
2230	23.13	23.43	25.43
2300	[illegible]	23.43	25.46
2330	[illegible]	[illegible]	[illegible]
2400	[illegible]	[illegible]	[illegible]

INTERNATIONAL CAPITAL MARKETS

Treasuries show strong gains after producer data

By Patrick Harverson in New York and Sara Webb in London

US TREASURY prices posted strong gains yesterday on a better-than-expected producer prices figure and a reasonably successful afternoon auction of $11.25bn in new 10-year notes.

In late trading the benchmark 30-year government bond was up $\frac{3}{32}$ at $95\frac{1}{32}$, to carry a yield of 7.670 per cent. The two-year note was also firmer, up ⅛ at $99\frac{5}{8}$, yielding 4.467 per cent.

Prices opened firmer after the Labor department reported that the producer price index rose just 0.1 per cent in October, or fell 0.1 per cent excluding the volatile food and energy components. Analysts had been expecting the index to rise 0.3 per cent, and the news quickly spurred buying of longer-dated securities, traditionally the most inflation-sensitive sector of the market.

Securities at both ends of the maturity spectrum added to their early gains after the 10-year auction was completed. The issue was sold at an average yield of 6.93 per cent amid solid demand from retail and institutional investors.

■ HOPES of an interest rate cut continued to sustain the UK government bond market, with gilts gaining up to a quarter of a point on the day.

The Liffe gilt futures contract rose from 101.24 at the opening to 102.09 by late afternoon, but dealers said volumes were relatively low ahead of the Chancellor's Autumn Statement tomorrow. "A lot of people are just biding their time ahead of the statement," said one dealer.

GOVERNMENT BONDS

The market opened on a weak note following press reports that Mr Norman Lamont, the Chancellor, does not intend to cut interest rates by as much as 2 percentage points.

The gilt market had been expecting a cut of between 1.0 and 2.0 percentage points. The news initially led to a fall in gilt prices, although the market later recovered to end unchanged at the short end and firmer at the long end.

The 9¾ per cent gilt due 2002 rose from $111\frac{11}{32}$ to $111\frac{5}{32}$ to yield 8.01 per cent.

■ GERMAN government bonds closed towards the high end of a narrow trading range, with the Liffe bund future ending unchanged on the day at 91.56.

Dealers said the market remained unperturbed by the finance ministry's announcement yesterday, when it cut its forecast for west German economic growth in 1993.

The ministry said west German GNP would grow by a nominal 4.2 per cent in 1993, although dealers warned that the forecast is generally seen at the top end of the market's expectations.

The ministry added that tax revenue would be lower than expected, which dealers expect will mean increased borrowing in the bund market.

AP-DJ adds from Frankfurt: Foreign investors bought a record DM34bn of bonds in September, the Deutsche Bundesbank, the German central bank, has revealed.

The strong flow of funds into the D-Mark during the European currency crisis in September was cited as the main reason behind the massive shifts.

"In full, long-term capital imports climbed from DM9.5bn in August to DM32.1bn in September," the Bundesbank said.

Most of those funds flowed into the German bond market. "Foreign investors in September acquired a net DM34m of domestic fixed interest-rate securities; most of that (nearly DM27bn) was public government bonds," the Bundesbank said. In August, foreigners bought a net DM12.19bn in domestic bonds.

By contrast, only a net DM1bn flowed into equities in September. At the same time, German investors sold their foreign securities in September, leading to a net import of DM2.3bn in the month in total securities.

■ JAPANESE government bonds continued Monday's strong rally, but profit-taking later yesterday wiped out some of the gains and the market closed lower.

The futures contract opened at 107.90, the high of the day, but fell to close at 107.74. In the cash market, the yield on the benchmark No 145 opened at 4.645 per cent and moved to end at 4.665 per cent.

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
AUSTRALIA		10.000	10/02	107.2108	-0.515	8.89	8.90	8.73
BELGIUM		8.750	08/02	105.0500	-0.130	7.97	8.12	8.36
CANADA *		8.500	04/02	103.6800	+0.450	7.94	7.73	7.74
DENMARK		9.000	11/00	102.2000	+0.325	8.61	8.83	9.50
FRANCE	BTAN	8.500	08/97	101.9827	-0.037	7.91	8.12	8.64
	OAT	8.500	11/02	102.8950	+0.180	8.06	8.15	8.48
GERMANY		8.000	07/02	104.4050	-0.237	7.34	7.38	7.43
ITALY		12.000	05/02	94.0700	+0.055	13.54†	13.73	14.57
JAPAN	No 119	4.800	06/99	101.0851	-0.052	4.59	4.61	4.72
	No 145	5.500	03/02	105.4741	-0.104	4.66	4.68	4.66
NETHERLANDS		8.250	08/02	104.6000	+0.020	7.52	7.58	7.71
SPAIN		10.300	06/02	87.2000	-0.450	12.84	12.64	13.21
UK GILTS		10.000	11/98	110-23	-5/32	8.87	7.19	8.36
		9.750	08/02	111-15	+1/16	8.01	8.27	8.96
		9.000	10/08	104-04	+3/32	8.50	8.73	9.23
US TREASURY *		6.375	08/02	98-15	+22/32	6.87	6.86	6.48
		7.250	08/22	100-03	+24/32	7.66	7.65	7.50
ECU (French Govt)		8.000	03/02	98.0500	+0.030	8.61	8.67	9.28

London closing, *New York closing. Yields: Local market standard
† Gross annual yield (including withholding tax at 12.5 per cent payable by non-residents.)
Prices: US, UK in 32nds, others in decimal. Technical Data/ATLAS Price Sources

FT FIXED INTEREST INDICES

	Nov 10	Nov 9	Nov 6	Nov 5	Nov 4	Year ago	High *	Low *
Govt Secs(UK)	95.46	95.39	95.01	94.59	93.85	86.82	95.46	86.11
Fixed Interest	109.97	109.66	109.14	108.66	107.86	96.56	109.97	97.16

Basis 100: Government Securities 15/10/26; Fixed Interest 1928.
* for 1992. Government Securities high since compilation 127.40 (9/1/35), low 49.18 (3/1/75)
Fixed Interest high since compilation: 109.97 (10/11/92), low 50.53 (3/1/75)

GILT EDGED ACTIVITY

Indices*	Nov 9	Nov 6	Nov 5	Nov 4	Nov 3
Gilt Edged Bargains	277.6	249.2	228.8	236.1	258.3
5-Day average	249.3	244.0	247.9	253.1	253.3

* SE activity indices rebased 1974

Increase in retail volume strains London markets

By Tracy Corrigan

A SURGE in private client trading in UK government bonds in recent days has paralysed one corner of the gilts market, as staff, computers and back-office facilities have become increasingly overstretched.

Retail brokers complained yesterday that several market-makers had stopped taking orders, and that where prices were available, they were often inconsistent.

The log-jam prompted the Bank of England and the London Stock Exchange to meet gilt market-makers and private client brokers yesterday to discuss ways of easing pressure on the retail side of the market. Average daily volume in the gilts market has increased from 2,500 to over 6,000 trades recently, the stock exchange estimates.

Dealers said the surge was caused in part by a wave of buying by private clients, prompted by growing expectations of a further two per cent cut in UK interest rates. Some investors have also been switching from short- to long-dated gilts, to gain higher yields.

Retail investors were also reported to have been rushing to sell out of a gilt issue which the Bank of England had called for early redemption.

Only five of the gilt market's 18 market-makers – Barclays de Zoete Wedd, County NatWest, Greenwell Montagu, UBS Phillips & Drew and Warburg Securities – are set up to deal in small amounts with retail brokers, increasing pressure on them as volumes rise.

Market-makers, on the other hand, said that brokers' reluctance to group small trades into larger orders had made the problem worse.

The difficulties were exacerbated by the practice in the gilts market of same-day settlement, dealers said.

After yesterday's meeting, the Bank said settlement deadlines would be extended from the current 3pm to allow more time for paperwork to be prepared by brokers. Brokers would also be encouraged to aggregate small orders to reduce the back-office pressure. "There's nothing to stop the brokers dealing as principals and then parcelling shares out to their clients," it said.

Retail brokers are due to hold a further meeting with the stock exchange today to consider ways of easing the log-jam.

Retail investors can obtain gilts through their brokers, or through the National Savings stock register, which buys gilts from the Bank of England.

Hungarian central bank launches DM600m Eurobond

By Brian Bollen in London and Nicholas Denton in Budapest

D-MARK issues dominated the international bonds market yesterday. Bankers say that the consolidation of the past two weeks or so has come to an end and the sector is rallying.

National Bank of Hungary started its 1993 borrowing programme early with a DM600m seven-year Eurobond launched yesterday on the German market. The bonds carry a coupon of 10 per cent and were priced at 102.00 to yield 9.59 per cent at issue or 250 basis points over German bunds.

Bayerische Landesbank, the German bank which led the issue, said that the market was receptive if not bullish and trading was within fees at 99.70 to 99.80. Bankers described the terms as being in line with those on Hungary's DM600m in January this year, adding that the issue looks like a slow mover. They feel it looks slightly large in current market conditions, the pricing a bit tight and the maturity possibly slightly too long. On the plus side, they also noted that it is the first D-Mark issue for payment next year and that this should give the underwriters enough time to clear their books.

INTERNATIONAL BONDS

NBH, the Hungarian central bank, said that it and the underwriters timed the issue to exploit an opportunity at the long-maturity end of the German bond market. Rates have fallen sharply but analysts do not expect the trend to continue.

The latest issue, for which payment is due in January, is part of an NBH programme to borrow $1bn in 1993 through at least four bond issues to maintain Hungary's position on international markets and increase central bank reserves.

NBH expects maturing debt of $2bn in 1993 to be offset – assuming a balanced current account – by direct capital inflow of at least $1bn and official borrowing of about $800m. The central bank plans to increase foreign currency reserves from the present level of $5bn to about $6bn. Nevertheless the view is gaining ground within the government that reserves are adequate and pressure is strengthening for NBH to ease its expensive borrowing programme.

Hungary is also set to meet a growing part of its external financing requirements through domestic issues since NBH recently said domestic underwriters could apply to sell forint bonds to foreigners. Hungary's declining reliance on international capital markets has come as its access has improved. NBH recently issued its first Yankee bond, a $200m 10-year exercise.

Meanwhile, Basle-based rolling stock supplier Eurofima's DM350m eight-year bonds will find their way to the regular investors, say bankers, adding that the associated currency warrants enabling buyers to take a position on the dollar against the D-Mark look expensive. Eurofima's FFr500m block trade re-opens an existing FFr1.5bn bond due 1999.

Strong investor demand is still being reported for sovereign, supranational and elite corporate borrowers in sterling. But Guinness was criticised for the way it tried to take advantage of the firm tone by launching a £150m five-year Eurobond. It was widely described as tightly priced at 42 basis points over comparable gilts. The borrower is, however, a well accepted and regular name and a new issue which does not suffer from coupon drag can risk being more aggressively priced.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees	Book runner
US DOLLARS						
Gemex(a)	100	10.75	99.934	1997	1¼/¾%	Goldman Sachs Int.
Cydsa(a)	50	9	99	1995	¾/½%	Citicorp Inv.Bank
D-MARKS						
National Bank of Hungary	600	10	102	2000	2⅝/1½%	Bayerische LBk
Eurofima(b)	350	3	102.5	2002	2½/1½%	JP Morgan
STERLING						
Guinness	150	7.375	101.125	1997	1⅞/1.7%	JP Morgan Secs.
FRENCH FRANCS						
Eurofima(c)	500	8.625	101.96	1999	-	Société Générale
GUILDERS						
Bank for Dutch Municipalities	800	7.625	100.45	2002	1/⅝%	ABN Amro
SWISS FRANCS						
Ono Sokki Co.(d)‡**	80	(d)	101.05	1996	-	Mitsubishi Bk(Switz.)
Yamada Corp**	11	6.625	100.125	1997	-	Paribas(Suisse)

Final terms and non-callable unless stated. **Private placement. a) Coupon payable semi-annually. b) 10 currency warrants per DM5000 bonds. Each warrant entitles holder to sell DM3500 for $ at a strike price of 1.75DM/$ on 31/8/94. c) Fungible with outstanding FFr1.5bn bonds 40 days after payment date. d) Coupon pays 45bp over 6-month Libor.

New Italian tax regime for international investors

By Richard Waters

INTERNATIONAL investors who hold Italian government bonds through the two international clearing systems, Cedel and Euroclear, will now be able to reclaim withholding tax on their investments, following an agreement reached with the Italian authorities.

Delays and difficulty in reclaiming the tax, which currently stands at 12.5 per cent, has traditionally been one of the main factors discouraging foreign fund managers from investing in Italy.

Rules introduced a year ago to make it easier for investors to reclaim the tax failed to meet many of the concerns of foreign fund managers, since they excluded market participants which have their tax residence in a different country from their clearing system or global custodian.

In the summer, a group of banks, brokers and clearing houses announced they had set up a group to negotiate with the Italian authorities to resolve resulting difficulties.

Although some details have to be finalised, the agreement with Italy has been concluded in principle, Euroclear said.

MARKET STATISTICS

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Closing prices on November 10

U.S. DOLLAR STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
ABN 9 1/8 94	200	106¼	107¼		5.07
ALBERTA PROVINCE 9 3/8 95	600	109¾	109¾		5.74
AUSTRIA 8 1/2 00	400	107¼	107¾		7.12
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

OTHER STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
ABBEY 7 1/2 95 LFr	600	96¼	97¼	+¼	9.11
ECSC 7 3/4 94 LFr	1000	99¼	100¼	+¼	8.21
WORLD BANK 8 96 LFr	1000	99¾	100¼	-⅛	8.06
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

DEUTSCHE MARK STRAIGHTS; SWISS FRANC STRAIGHTS; YEN STRAIGHTS; FLOATING RATE NOTES; CONVERTIBLE BONDS: [illegible]

* No information available - previous day's price
† Only one market maker supplied a price

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day = Change on day.
FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. Spread = Margin above six-month offered rate (three-month §above mean rate) for US dollars. C.cpn = The current coupon.
CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Cnv. price = Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem = Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	36	23	20
Other Fixed Interest	7	6	2
Commercial, Industrial	320	230	870
Financial & Property	277	57	469
Oil & Gas	24	14	46
Plantations	1	1	7
Mines	19	54	72
Others	57	21	39
Totals	741	406	1,525

LONDON RECENT ISSUES

EQUITIES

[illegible]

FIXED INTEREST STOCKS

[illegible]

RIGHTS OFFERS

Issue Price p	Amount Paid up	Latest Renunc. Date	1992 High	1992 Low	Stock	Closing Price p	+or-
150	Nil	23/11	80pm	40pm	Wassall	40pm	-2
25	Nil	1/3	6pm	2½pm	Property Trust	2½pm	-½
335	Nil	22/12	52pm	9pm	Wagon Ind.	16pm	

a Annualised dividend. b Figures based on prospectus estimates. g Assumed dividend and yield. u Earnings based on preliminary figures. s Forecast or estimated annualised dividend rate, cover based on previous year's earnings. r Ex-dividend. F Dividend and yield based on prospectus or other official estimates for 1992-93. H Dividend and yield based on prospectus or other official estimates for 1993. L Estimated annualised dividend, cover and p/e based on latest annual earnings. N Dividend and yield based on prospectus or other official estimates for 1992. Q Gross. R Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates. W Pro Forma figures. § Issued by way of rights. ‡ Introduction. ¶ Placing price. †† Reintroduction. ‡ Unlisted securities market. ◊ Issued in connection with reorganisation, merger or takeover. pm Price at a premium.

TRADITIONAL OPTIONS

- First Dealings Nov. 9
- Last Dealings Nov. 20
- Last Declarations Feb. 11
- For settlement Feb. 22

3-month call rate indications are shown in Saturday editions.

Calls in AMEC, Blue Circle Inds., Ratners and Tarmac. Put in Ratners. Double in Ferranti Intl.

FT-SE ACTUARIES INDICES

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LIFFE EQUITY OPTIONS

[illegible]

Option		Nov	Feb	May	Nov	Feb	May
Brit Aero (*135)	130	13	26	29	8	20	28
	140	7	22	25	14	25	35

November 10 Total Contracts 25,759
Calls 16,646 Puts 9,123
FT-SE Index Calls 4,502 Puts 2,662
Euro FT-SE Calls 1,009 Puts 1,000
*Underlying security price. † Long dated expiry months
Premiums shown are based on closing offer prices.

FT-ACTUARIES FIXED INTEREST INDICES

	PRICE INDICES	Tue Nov 10	Day's change %	Mon Nov 9	Accrued interest	xd adj. 1992 to date
	British Government					
1	Up to 5 years (22)	129.15	-0.04	129.20	1.84	10.99
2	5-15 years (25)	147.87	+0.07	147.77	2.05	11.65
3	Over 15 years (8)	154.30	+0.11	154.13	2.28	10.57
4	Irredeemables (6)	173.27	+0.30	172.75	0.43	13.45
5	All stocks (61)	143.87	+0.04	143.81	2.01	11.64
	Index-Linked					
6	Up to 5 years (2)	184.41	+0.04	184.33	0.44	3.68
7	Over 5 years (10)	169.31	+0.01	169.29	0.99	4.04
8	All stocks (12)	170.15	+0.02	170.12	0.91	3.96
9	Debs & Loans (62)	123.94	-0.20	124.19	2.19	10.48

	AVERAGE GROSS REDEMPTION YIELDS		Tue Nov 10	Mon Nov 9	Year ago (approx.)
	British Government				
1	Low	5 years	6.83	6.80	8.42
2	Coupons	15 years	8.07	8.11	9.46
3	(0%-7¾%)	20 years	8.35	8.39	9.47
4	Medium	5 years	7.12	7.11	9.64
5	Coupons	15 years	8.47	8.48	9.57
6	(8%-10¾%)	20 years	8.73	8.73	9.55
7	High	5 years	7.37	7.35	9.85
8	Coupons	15 years	8.76	8.78	9.66
9	(11%-)	20 years	8.88	8.90	9.60
10	Irredeemables(Flat Yield)		8.71	8.74	9.67
	Index-Linked				
11	Inflation rate 5%	Up to 5yrs.	2.30	2.31	3.81
12	Inflation rate 5%	Over 5 yrs.	3.67	3.67	4.25
13	Inflation rate 10%	Up to 5 yrs.	1.55	1.56	3.32
14	Inflation rate 10%	Over 5 yrs.	3.50	3.50	4.06
15	Debs &	5 years	8.70	8.71	11.33
16	Loans	15 years	9.77	9.73	11.13
17		25 years	9.99	9.96	10.95

De La Rue achieves 48% advance to £46m

By Andrew Bolger

A SUCCESSFUL acquisition helped De La Rue, which prints banknotes and makes cash-handling machines, boost pre-tax profits by 48 per cent to £46m in the six months to September 30.

The UK group's figures reflected for the first time a full contribution from Inter Innovation, the Swedish competitor in payment systems for which it paid £94.7m last October.

Turnover rose by 64 per cent to £272.7m.

Mr Jeremy Marshall, chief executive, said the Swedish acquisition had, as predicted, not been dilutive. Indeed earnings per share grew by 23.2 per cent to 17p (13.8p).

Mr Marshall said: "I am delighted with the continuing progress De La Rue is making, which is reflected in these results. Security printing has continued to grow strongly, while the addition of Inter Innovation to payment systems has proved to be a valuable acquisition. In spite of depressed economic circumstances, prospects for De La Rue remain good."

The board said that the sustained increase in earnings, together with good prospects for the rest of the year, justified a 10 per cent increase in the interim dividend, from 3.5p to 3.85p.

Mr Marshall said that in spite of the uncertain outlook for economic growth in the UK, and in many countries overseas, the order books in both security printing and payment systems remained strong.

Demand for banknotes and other high-security documents grew particularly strongly in formerly Communist countries.

Having raised £160.3m in a rights issue last year to help fund the Swedish acquisition, the group still has net cash of £109.9m. Interest receivable rose from £200,000 to £5.6m.

COMMENT

Mr Marshall's transformation of De La Rue has been one of the great City success stories of recent years, so a 5p drop in the group's shares to 648p seems a rather grudging response to these figures. Analysts were slightly concerned by the drop in security printing's profit margins, which reflect increased competition. However, they also acknowledged that Mr Marshall's cost-cutting skills should produce further benefits from Inter Innovation. Forecast full-year profits of about £96m put the shares on a premium prospective multiple of just over 18. Although the shares may not advance much in the short-term, the group is building a strong market position for the time when banks can afford the capital investment necessary to replace staff handling money with machines.

VSEL rises 15.6% to £25.9m

By Angus Foster

VSEL Consortium, the Barrow-based builder of the Trident nuclear submarines, yesterday reported improved profits as a mounting cash pile led to higher interest earnings.

Pre-tax profits increased by 15.6 per cent to £25.9m in the six months to September 30. This was slightly ahead of market expectations and *the shares gained 19p to 488p.*

Profits increased despite a fall in turnover from £256m to £234m. Turnover is set to continue to fall for some years as a result of the company's plan to reduce its workforce from its level of nearly 17,000 three years ago to close to 7,000.

This is due to falling defence orders following the end of the cold war and the government's Options for Change defence review.

More than £50m of cash was generated during the period, and net cash increased to £160m. Interest receivable increased from £4.1m to £7m.

The first Trident submarine, HMS Vanguard, is now 90 per cent complete and is due to be delivered next year. The firm order for the fourth boat was confirmed in July.

VSEL is studying a number of approaches from potential buyers of the Cammell Laird yard in Birkenhead, which it put up for sale 18 months ago. *Mr Noel Davies, chief executive,* said the chances of finding a buyer wanting to continue to build ships were "petering out".

VSEL's small non-defence businesses, acquired to widen the company's experience, were making progress and recently won contracts worth £3.5m from British Gas and an oil company.

Earnings increased 10 per cent to 44p while the interim dividend is raised 12.5 per cent to 9p.

COMMENT

VSEL's obvious weaknesses mean it is never likely to be a stock market favourite. It is a defence stock with a single customer, the Ministry of Defence, and it builds environmentally unfriendly nuclear submarines. But management seems to be succeeding in its awesome task of reducing the workforce by more than half, and telling workers in advance, without ruining the motivation of *those who remain. Despite* murmurs of further defence cuts in the Autumn Statement, Trident must be safe and the second batch of Trafalgar submarines, where the contracts will not be awarded before 1994, are still too far out to offer any cost savings. Forecast profits this year of £54m put the shares on just over 5 times, with a yield of close to 8. VSEL's cash-flow, and the fact that most of the profits from Trident are yet to come, suggest *the dividend is more than* safe and make the shares an interesting option for income funds.

GPA seeks to improve position in bank talks

By Roland Rudd, Robert Peston and Bill Hinchberger

GPA GROUP is expected to outline its debt restructuring proposals at a meeting of its 73 banks on November 23.

The world's biggest aircraft leasing company, with total debts of about $5bn (£3.2bn), is talking to its banks as part of a complex series of discussions with creditors and suppliers to strengthen its financial position.

Several of GPA's banks said yesterday that the successful resolution of negotiations with the suppliers, led by Boeing and Airbus Industrie, was essential if the company was to win support from bankers for rescheduling some of its debt payments.

GPA, which is being advised by Schroders, the UK merchant bank, wants suppliers to defer delivering billions of dollars of aircraft the company has agreed to buy.

In a separate development, GPA yesterday recovered 13 of its aircraft which were leased *to VASP, Brazil's second leading* airline after it failed to meet leasing payments of about $12m.

When aircraft are seized in this way GPA has to find new leases before receiving revenue from the aircraft.

One of GPA's principal bank lenders said yesterday the bank talks were triggered earlier this year after the company revised its revenue projections.

A reduction in projected revenues *led to a potential* breach of its borrowing covenants.

The banker said the potential breach postponed attempts by GPA to raise $752m from the sale of bonds backed by 18 aircraft leases, called ALPS 2.

It helped scuttle an attempt to raise $350m from the sale of convertible preference shares before the end of the year.

GPA said yesterday that if it succeeds in talks with banks *and manufacturers an equity* issue and the ALPS 2 would go ahead in the first quarter of 1993.

Warburg well below expectations

The bank says poor results were predictable, reports Richard Waters

AS HE announced SG Warburg's pre-tax profits of £51.2m for the first half, well below market expectations of about £75m, Lord Cairns, chief executive, said: "It's becoming increasingly difficult to keep the market informed."

The stock market promptly wiped some 8.5 per cent off the UK merchant bank's share price.

Increased public concerns about insider trading had meant that the bank now felt less able to guide analysts about what profits it would report, said Lord Cairns.

However, he added that recent poor results from other other investment banks, such as Salomon and Barings, should have given stock market analysts a warning of what was to come.

Most of the bad news the market had to digest yesterday came from two directions. Warburg's fixed income division turned in a loss of about £10m, while the German subsidiary of its Pallas Leasing group had been closed at a cost of £11.6m.

Together, these helped to pull down profits in the group's investment banking operations to £20.4m, compared with £65.2m in the same period in 1991.

Other investment banking activities presented a mixed picture. Corporate finance had been generally busy during a quiet period for the industry as a whole, with Warburg advising on the Hongkong Bank merger with Midland, the Wellcome share flotation and ICI's planned demerger.

Equities experienced a strong first quarter to the financial year as trading volumes jumped after the general election, but suffered along with other houses from a fall-off in activity in the second quarter.

Warburg said it had begun to restructure its loss-making Japanese equities business with the loss of a small number of jobs, and had restricted the range of Japanese equities it researched.

However, "results in the main UK, US and Japanese markets did not meet our expectations."

Warburg announced an unchanged interim dividend of 5.25p, despite a fall in earnings per share from 27.6p in the first half of 1991 to 11.9p (or 17.4p on continuing businesses). Mercury Asset Management bolstered the group's position with pre-tax profits of £35.5m, up from £34m in the same period of 1991. This was despite the decision to write off the remainder of MAM's investment in Isosceles, representing a charge of £4m.

Mr Peter Stormonth Darling, chairman, said he remained confident that at least part of this investment could be recovered. MAM's improved performance came from a reduction in its costs from £49.2m to £45.8m. Turnover was up less than £200,000, at £76.3m.

Mr Stormonth Darling said the company had not lost any clients following the departure of Mr Leonard Licht, vice-chairman, this summer, and that its funds under management had grown by £1bn to £42bn.

MAM's investment performance, while disappointing in 1991, was likely to be stronger in 1992, putting it back among the leading managers on results, said Mr Stormonth Darling.

Peabody sues Costain over $200m coal mining deal

By Nikki Tait in New York and Andrew Taylor in London

PEABODY Holding, the US-based coal-mining subsidiary of Hanson, the UK conglomerate, has filed a lawsuit in Missouri, seeking to have its proposed $200m (£129m) purchase of Costain's Australian coal mining business enforced by the US courts.

Costain, the UK construction group which initially had agreed to sell the business to Peabody, on Monday *announced it had accepted a* higher offer from Altus Finance, a subsidiary of Credit Lyonnais, the French bank.

Altus has agreed to pay $245m for the mining business and Costain's remaining Australian commercial property interests which had not been included in the deal with Peabody.

Peabody, in a lawsuit filed in the St Louis circuit court, claims that Costain has been guilty of "bad faith and breach *of written obligations.*"

It asks that Costain be made to abide by the terms of the original agreement, and an injunction placed on the sale *to Altus. If specific* performance of the agreement is not awarded, it wants damages to be determined at a jury trial.

The law suit alleges that the UK construction group granted Peabody exclusive negotiating rights when the initial purchase discussions took place. It says that the agreement specifically provided that "Costain ... would not solicit any competing bids and that Costain would use its good faith *efforts to consummate the* transaction".

The law suit says that Costain "... expressly acknowledged and agreed that money damages would not be an adequate remedy if it breached the agreement."

Exclusive negotiating rights according to Peabody were initially granted until September 21. However, in mid-September, Mr Peter Costain, chief executive of the UK construction group, orally agreed to extend *this period as long as* good faith negotiations were going on.

The company alleges that around October 16, Goldman *Sachs, advising Costain, told it* that a third party had offered $210m for the coal operation. Peabody, told Goldman that it had an exclusivity agreement and would not increase its $200m offer.

The third party - subsequently shown to be Altus - was then said to have raised its offer to $220m, but Peabody again claims to have told Costain that it was acting in bad faith, violating the exclusivity agreement. On *October 20, Peabody and* Costain signed the $200m sale agreement.

Mr Costain expressed surprise that proceedings were being brought in the US courts given that the original agreement had been with a UK subsidiary of Hanson.

He said: "We remain totally confident of our position that we have acted in the best interests of our shareholders as permitted by the purchase agreement and that we have lived *up to all the terms and* conditions of the agreement.

"We will therefore vigorously defend our position."

Robert Bass in push for MCC's US businesses

By Raymond Snoddy

The Robert Bass group is pushing for the right to make direct presentations on its offer of about $1.2bn (£770m) for the main US businesses of Maxwell Communication Corporation.

A group of investors led by Keystone, formally the Robert M Bass Group and Acadia an investment partnership including Mr Bass, confirmed yesterday that it had made an offer for the Macmillan publishing businesses and the Official Airline Guides.

The offer is $725m cash plus the assumption of all liabilities to third parties.

Price Waterhouse, the MCC administrator, has rebuffed the approach on the grounds that it is at the bottom end of their $700m-$1.1bn expectations net of tax and other obligations. Price Waterhouse and JP Morgan, its US adviser, have said they plan to sell OAG and float Macmillan.

Those involved in the *approach believe the bid* represents full value. It is clear that negotiations over the offer have not been ruled out.

COMPANY NEWS: UK

Job losses and recession continue to bedevil UK tile-maker

Norcros drops 12% to £5.56m

By Jane Fuller

AFTER THE false dawn in the building sector early this summer, Norcros was forced to make further redundancies in its UK tile-making business.

This was the main component in the £2.65m exceptional costs which lay behind a 12 per cent decline in pre-tax profit, from £6.32m to £5.56m, in the six months to September 30.

Operating profit advanced from £10.5m to £11.7m on sales of £191.2m (£196.3m).

Interest costs fell to £3.45m (£4.29m).

Earnings per share fell from 3p to 2.5p, and a maintained interim dividend of 3.5p is again uncovered.

There was a retained loss of £1.42m (profit of £792,000).

Building products, the largest division by sales with £80.8m in the first half, staged a recovery in operating profit to £4.2m (£2.16m).

Mr Michael Doherty, chief executive, said losses had been halved at Crosby Sarek windows and doors and Crittall Windows had improved to break-even. Triton showers continued to grow.

Michael Doherty: changed view towards restructuring

Profit slipped in ceramics to £4.7m (£5m) on sales of £55.3m (£60.1m). A further fall in the UK tile market of 12 to 15 per cent this year led to another 150 job losses at Johnson.

"As late as July we hoped there would be no more restructuring, but our attitude had to change after that," Mr Doherty said.

The headcount came down from 2,500 to 1,200 in three years, although capacity increased and quality improved.

By the year end the wages bill should be 5 per cent down despite pay increases of up to 4 per cent.

In print and packaging, profit fell to £4.38m (£5.1m). Norprint was hit by a substantial drop in demand for price labels from small shops.

Fierce competition also undermined prices.

Property disposals amounted to £20.6m this financial year, of which nearly £10m was received in cash, plus £3m deferred from the previous year.

Borrowings were reduced by £8.2m to £119.9m, giving gearing of between 80 per cent and 90 per cent.

● COMMENT

Six months ago the story was that Norcros's restructuring was complete and it was ready to start growing. The reverse has happened. It was, of course, not the only company to think the worst was over. The result has punctured the recovery staged in ceramics last year, leaving the joinery businesses short of sufficient sales to make a profit. The continuing slump in commercial construction continues to hold back the tile market, while over-capacity in doors bodes ill for loss-making Crosby Sarek. This year's figures have a small cushion in a pension fund surplus and provisions set up to cover the liquidation of the property portfolio. The group still has a little way to go before it is cash neutral, leaving aside property sales. Full-year pre-tax profit, helped by lower interest costs and reduction of losses in building products, is forecast to inch ahead to about £16m, a prospective p/e multiple of 15 on last night's share price of 113p. A yield of just over 8 per cent – the final dividend should be maintained – provides a floor for the price.

Marshalls shows decline to £6.41m

By Andrew Taylor, Construction Correspondent

PRE-TAX PROFITS at Marshalls, the Halifax-based building materials group, slipped from £7.13m to £6.41m for the six months to September 30.

The interim dividend is maintained at 1.25p on capital increased by the £20m rights issue concluded in the summer.

The distribution is covered by earnings of 1.85p a share. That compared with earnings of 2.68p, restated to take account of the rights issue, at the corresponding stage last year.

The share price was unchanged at 48p, compared with the rights issue price of 75p.

Mr Simeon Marshall, director, said the results were creditable given that some two thirds of group sales of concrete, stone and clay products were to the depressed UK private commercial, industrial and residential markets.

Turnover fell from £97.9m to £93.2m. Mr Marshall said the fall in profits would have been greater but for demand from local authorities for paving products which, although not increasing, had held up well.

The cost of bad debts increased from £397,000 to £453,000, mostly due to higher credit insurance costs. The group was fully covered against bad debt risks, Mr Marshall said.

Redundancy costs also increased, from £550,000 to £605,000. During the past 12 months the group has cut its workforce by about 6 per cent, equivalent to 150 jobs.

The group said that the rights issue cash had been ear-marked for profitable acquisitions but these had proved harder to find than had been expected.

A number of possibilities had been investigated and discussions were continuing in some cases.

"Capital expenditure is lower than forecast with the market downturn making it difficult to justify some of the expected investment," said Mr Marshall.

The rights issue proceeds, however, had enabled the group to further reduce net debt which, since the halfway stage last year, had fallen from £39.4m to £13.6m.

Gearing was reduced from almost 40 per cent to less than 12 per cent.

Interest charges as a result fell from £2.81m to £1.67m.

Europa Minerals reduces loss after recent upheaval

By Matthew Curtin

EUROPA MINERALS, the UK mining finance house dogged by poor performances at its mines and by boardroom upheavals since its 1989 listing, came close to break-even in the six months to July 31 – during which it was refinanced and restructured under new management.

The group, which owns gold and coal mines in Australia and has North Sea and Indonesian oil and gas interests, reported a pre-tax loss of £289,000, reduced sharply from a £2.45m loss at the interim stage in 1991.

Austmin, a small Australian mining company and Europa's largest shareholder, took over management of the company earlier this year. The Australian operations are now run by executive directors Mr Guido Staltari and Mr Bob Duffin.

Sir David Hardy, executive chairman, said Europa had emerged from "a frustrating period in which it had lost its way" as a slimmer and fitter company.

Turnover rose from £8.31m to £8.91m. Costs of sales rose only 6 per cent which, with lower distribution and administration costs, enabled the company to return an operating profit of £14,000, compared with a loss of £1.55m in 1991.

Losses per share were 4.3p, against 26.8p.

Etonbrook shareholders urged to reject tender offer

By Peggy Hollinger

THE BOARD of Etonbrook, the property developer which is in dispute with its largest shareholder over a capital restructuring, has written to investors urging them to reject a tender offer for 13.4 per cent of the company.

The letter warned shareholders that the offer of 73p per share would bring the stake held by Mr Andrew Perloff and companies associated with him to 29.9 per cent.

"He will have achieved a disproportionate degree of control over Etonbrook without having made a full bid," the letter states.

The letter further claimed the offer compared unfavourably with the stated net asset value per share of more than 100p.

The group said that following the disposal of a London property, Etonbrook had cash balances of 61p per share and no debt – or 34p after repayment of £1.2m in preference shares.

Mr Perloff has consistently objected to a capital restructuring which would allow full repayment of the preference shares and payment of dividends. His objections were supported at an extraordinary meeting in September, although he failed in his attempt to win a seat on the board.

Simpsons rebels consider approach to Panel

By Tim Burt

REBEL SHAREHOLDERS at Simpsons of Cornhill, owner of the famous City chop house, yesterday threatened to ask the Takeover Panel to examine the proposed merger with Baldwin, the holidays, printing and properties group.

The dissidents told shareholders at Simpsons' annual meeting that they feared Baldwin's all-paper offer could dilute the value of their holdings because, they claimed, Baldwin was also considering a separate all-paper bid for Leading Guides, the private publishing company in which Mr Roy Ackerman, Simpsons chairman, has a majority stake.

Leading Guides, publishers of Egon Ronay guides, was formed earlier this year after Alfresco Leisure Publications, of which Mr Ackerman was chairman, went into receivership.

Mr Ackerman, who urged shareholders to support Baldwin's offer, said their was no link between the Simpsons bid and negotiations over Leading Guides.

Although Mr Sandy Singh, Baldwin's chief executive, confirmed last week that the company was considering an offer for Leading Guides, Mr Ackerman said the talks were only at an early and informal stage.

The rebels, he claimed, were trying to divert attention from the Baldwin bid, which values Simpsons at £1.68m.

Baldwin has offered one share for every two Simpsons shares; full acceptance will involve the issue of 2.28m new shares in an enlarged group in which Simpsons will be a wholly owned subsidiary.

The offer has been accepted by the Simpsons board and stockbrokers Raphael Zorn Hemsley, together representing more than 54 per cent of the capital.

However, Mr Stephen Morris, speaking for the rebels, said three large shareholders would oppose the offer. Guernsey-based Spread Trustee Company, Mountjoy of the Turks and Caicos Islands and Capital Resources of Australia all wanted "more details about the Leading Guides deal," he said.

Together the three companies control 23.8 per cent of the share capital.

"We are unlikely to accept the paper bid, and we will go to the Takeover Panel to insist that Baldwin gives details about Leading Guides," Mr Morris added.

Simpsons is confident the rebels will back the Baldwin offer once the formal bid document is published.

Dismissing concerns over Leading Guides as a "red herring", Mr Ackerman said Baldwin offered the best opportunity for expansion of Simpsons' restaurants business.

NEWS DIGEST

Merchant Retail slides to £467,000

MERCHANT RETAIL Group returned pre-tax profits of £467,000 for the half year to September 26 on turnover of £88.8m.

Although the figures compared with £1.23m and £79m respectively for the same period of the previous year directors said "robust trading" was experienced at its discount supermarkets and department stores.

Trading profits of the Normans supermarkets fell to £1.36m (£2m) but at that level were considerably ahead of those for the second half of the past year.

A slight decline in trading profits at the Joplings department stores to £736,000 (£818,000) reflected tighter margins and an increase in sales on interest-free credit.

The interim dividend is cut to 0.35p (1.1p), in line with the company's objective of maintaining the full-year pay-out – the final dividend was omitted last time. Earnings on the enlarged capital emerged at 0.44p (0.97p).

Casket riding high with 79% increase

Increased operating profits and lower interest charges led Casket, the bicycles and clothing group, to a 79 per cent increase in pre-tax profits for the six months to September 30.

The advance, from £1.05m to £1.87m, was achieved on turnover up 42 per cent at £50.1m (£35.4m).

Mr Joe Smith, chief executive, said the bicycle operations – where the group has more than 20 per cent of the UK market following the purchase of Falcon Cycles late last year – continued to expand successfully. The clothing businesses were operating more efficiently in difficult market conditions.

The interim dividend is doubled to 0.3p, payable from earnings ahead 89 per cent at 1.7p (0.9p).

Hartlepools Water falls to £670,000

Pre-tax profits of Hartlepools Water Company slipped by 3 per cent, from £690,000 to £670,000, in the six months to end-September.

The company said the recession continued to depress metered demand by industrial customers.

Turnover rose slightly, from £2.59m to £2.61m, and earnings per stock unit increased to 67p (66p). The interim dividend is raised to 22p (21p).

Dickie reports sharp upturn to £298,000

James Dickie, a manufacturer of engineering components and assemblies, saw pre-tax profits rise from £206,000 to £298,000 in the year to August 31 following a sharp improvement in the second six months of the year; the first six months saw a loss of £98,000.

Turnover fell from £26.5m to £15.4m following consolidation of manufacturing activities, including the closure of Coalville Sheet Metal and the sale of James Dickie Forgings to its management.

Earnings per share came through at 3.4p against 5.8p after tax of £89,000 (£152,000 credit). A single distribution of 1p (nil) is proposed.

Cardwise sale cleared by DTI

The Department of Trade and Industry has cleared the sale of part of Cardwise, a credit card protection company owned by American Express, to Credit Card Sentinel, the European arm of Datacard Corporation of Minneapolis.

An inquiry into the sale was started by the Office of Fair Trading in June, but the OFT recommended against referring the sale to the Monopolies and Mergers Commission. Cardwise was formerly owned by the banks in the Access consortium.

Elan shows strong interim growth

Net income at Elan Corporation, the Dublin-based specialised health care group, amounted to I£4.01m (£4.39m) for the second quarter to September 30, for a first half total of I£8.28m, compared with I£5.5m.

Earnings per share amounted to 0.26p, against 1.9p.

VTR declines to £434,000

Profits of VTR, the USM-quoted video editing company, fell from £600,201 to £434,028 pre-tax for the year to August 31. Turnover rose by £1m to £7.3m.

Mr Philip Lovegrove, chairman, said the overall trend of business which had been positive when he reported in April was reversed and the second half proved disappointing.

Earnings dipped to 3.5p (5.3p) per share. A same-again final dividend of 2.2p holds the total at 3.4p.

Dares Estates' interims delayed

Dares Estates has delayed publication of its interim results following negotiations with its bankers concerning the breach of financial warranties.

Shareholders have already been informed and the proposed restructuring of the facilities are continuing.

Negotiations are expected to be concluded by the end of November.

Dissidents fail at Hoskins

By Philip Rawstorne

An attempt by dissident shareholders to take over the management of Hoskins Brewery, the Leicester-based brewer, collapsed yesterday.

Mr Richard Cattermole, chief executive of Ryan Elizabeth, an East Anglian pubs and hotels company, and his associate, Mr Jeremy Lea, abandoned moves to oust Messrs Barrie Hoar, chairman, and his brother Robert Hoar, from the Hoskins board.

A statement said: "Mr Cattermole believes the recent attention drawn to Hoskins' financial performance will focus the minds of the Hoar brothers on what has to be done to restore confidence."

Mr Barrie Hoar welcomed the withdrawal, but said he was awaiting formal confirmation.

Grosvenor sale to UB

Grosvenor Inns, through its Slug & Lettuce subsidiary, has exchanged contracts with Wiltshire Brewery, where UB Group has taken management control, for the sale of its long freehold interest in The Water Rat, a restaurant/cafe bar in Stratford-upon-Avon.

Consideration of £500,000 is to be satisfied by way of an allocation of shares and a deferred consideration. The consideration is £100,000 by way of 1m new ordinaries in Wiltshire with no restrictions on disposal or £200,000 by way of 7 per cent redeemable convertible loan note.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the subdivisions shown below are based mainly on last year's timetables.

TODAY

Interims- Allied Irish Banks, Amersham Intl, Chamberlin & Hill, Cook (Wm), Drayton English & Intl Trust, Dunhill, Electrocomponents, Hambros, King & Shaxson, RIT Capital Partners, Regalian Props, St James's Place Capital, Smith St Aubyn, Upton & Southern, Wardell Roberts.

Finals- Bett Bros, Bibby (J), Jessups, Scottish Value Trust

FUTURE DATES

Interims-

AAH	Nov. 26
ACT	Dec. 1
Anglian Group	Nov. 18
Argyll	Nov 24
BSS	Dec. 1
Black Arrow	Nov. 16
Bristol Evening Post	Nov. 19
Bulgin (AF)	Nov. 20
Capital Gearing Trust	Nov. 12
Castings	Nov. 26
Charter Consolidated	Dec. 8
Christie Group	Nov. 12
Creighton's Naturally	Dec. 15
Danka Business Systems	Nov. 23
Drayton Blue Chip Trust	Nov. 18
East Surrey	Nov. 30
European Motor	Nov. 17
Foreign & Colonial German	Nov 20
Forward Group	Nov. 19
Golden Hope Plantations	Nov. 18
Govett Am Endeavour	Nov. 16
Granada	Dec. 2
Hicking Pentecost	Nov 17
Jarvis Porter	Nov. 16
Johnson Matthey	Dec. 3
Kalamazoo	Nov. 24
Land Securities	Nov. 18
Leigh Interests	Nov. 30
Lowndes Lambert	Nov. 24
M & G Income Inv Trust	Nov 18
M & G Recovery Inv Trust	Nov 18
Marling Industries	Nov 23
Martin Currie European	Nov. 18
Mid Kent	Nov. 25
Midlands Electricity	Dec. 10
Oglesby & Butler	Nov 13
Porter Chadburn	Dec. 2
PowerGen	Nov. 18
RPH	Nov. 16
Readicut Intl	Nov. 17
SPRAIT	Nov 19
South West Water	Nov 26
Southern Electric	Nov. 24
Specialeyes	Nov. 20
Staveley Industries	Nov. 12
Storehouse	Nov 19
TR Property Inv Trust	Nov. 20
Thorn EMI	Nov. 24
Unigate	Nov. 18
Tiphook	Dec 14
Vibroplant	Nov. 16
Volex	Nov 16
Welsh Water	Nov. 26
Wessex Water	Dec. 17
Whitegate Leisure	Nov 16
Wishaw	Nov. 13
Wood (SW)	Nov. 30

Finals-

Apollo Metals	Nov. 24
Bailey (CH)	Nov. 13
Base	Dec. 1
Capital Radio	Nov. 17
Drayton Asia Trust	Nov 12
Eldridge Pope	Dec 10
Euro Disney	Nov. 19
Five Oaks Inv	Nov. 12
Foreign & Colonial Euro	Nov 20
General Accident	Mar. 2
Glasgow Income Trust	Nov. 18
Hogg Robinson	Nov. 19
Lyon Irish	Dec. 1
MEPC	Dec. 1
Molyneux Estates	Nov 12
Nesco Invs	Nov 16
Rodime	Nov 19
Shanl	Nov. 19
Sidlaw	Nov. 18
Sturge	Dec. 8
Wills Corroon	Nov. 18

Anglian Water up 9%

By Angus Foster

ANGLIAN WATER, which supplies water and sewerage services to customers from the Humber to the Thames, yesterday announced pre-tax profits up 9 per cent to £100.2m for the six months to September 30.

The increase was mainly due to higher prices and cost cutting.

Mr Bernard Henderson, chairman, said Anglian continued to perform well. Mr Chris Mellor, group finance director, said second-half profits would be slightly lower because of seasonal factors, such as pumping costs, and higher net borrowings.

Turnover rose 9.7 per cent to £286.3m, helped by average price increases of 9.4 per cent. Industrial volumes, which have been affected by recession, appeared to have stabilised and fell 1 per cent compared with 7 per cent in the corresponding period.

Operating costs increased 7.7 per cent to £127.2m because of inflation and higher running costs owing to new quality standards.

Anglian said increased efficiency, stemming from improved productivity and rationalisations, saved £2.5m. Operating profits increased 12 per cent to £114m.

Depreciation jumped 18 per cent to £25.4m, reflecting the capital expenditure programme.

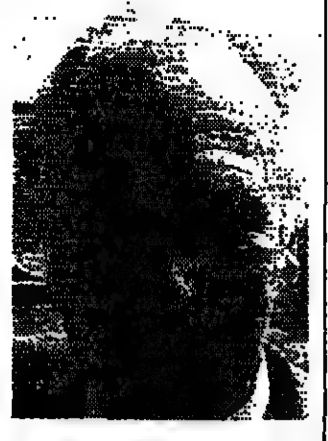
Capital expenditure, which totalled £294.9m last year, is expected to reach £330m this time. Anglian's programme to improve sewage treatment works is nearly complete. An increasing amount of spending will now go towards improving water supply.

Interest costs increased 39 per cent to £13.9m as net debt increased from £209.2m a year ago to £283.6m. This lifted gearing more than 4 percentage points to 20.6 per cent.

Anglian was one of the slowest of the privatised water companies to buy non-core businesses, acquiring Rosewater Engineering in July. The company said it was now combining this company with two existing subsidiaries to create a broader based water process engineering company.

Earnings increased 8.9 per cent to 31.7p and the interim dividend rises 7.9 per cent to 6.8p, broadly in line with Anglian's policy of real annual dividend growth of 4 per cent.

The results were in line with forecasts but Anglian's shares gained 12p to 479p in line with a firm water sector.



Bernard Henderson, chairman: pleased with performance

See Lex

National Express sees profit

By Richard Tomkins, Transport Correspondent

NATIONAL Express, the scheduled coach service operator joining the stock market later this month, is forecasting a sharp turnabout from pre-tax losses of £1.2m last year to pre-tax profits of £6.5m for the 53 weeks ending January 2.

The figure emerged yesterday in a pathfinder prospectus for the flotation. It reflects a strong recovery from heavy restructuring costs taken after last year's management buy-in.

The full prospectus, due out on November 24, is likely to value National Express at more than £50m. The flotation will be through a placing and offer for sale, with 25 per cent of shares being offered to the public.

One reason for the flotation, expected to raise about £25m for National Express, is to help the company pay off borrowings and restructure its balance sheet after a period of rapid change.

About £9m will be used to redeem preference shares held by venture capital funds that backed last year's buy-in. The balance will wipe out £11m deficit on shareholders' funds, most from a goodwill write-off.

General Accident's £37m loss blamed on Hurricane Andrew

By Richard Lapper

HEAVIER-THAN-expected claims from Hurricane Andrew in the US left General Accident, the composite insurer, nursing pre-tax losses of £36.7m for the nine months to September 30 but masked an underlying improvement in the UK and the Far East.

Losses from the hurricane amounted to £38m, some £7m more than originally estimated.

GA suffered losses of £31m on its direct US business and a further £7m on its reinsurance portfolio. US underwriting losses rose to £136.6m (£89.6m).

In the UK, the company reported a continuing improvement on its domestic motor and householders' business, largely reflecting rate increases, more selective underwriting and reduced costs.

Losses from motor policies were reduced by over 50 per cent to £50.5m. Premium income fell to £268.2m (£308.5m) despite average rate increases of about 15 per cent.

The houseowners' insurance account also improved, with a £2.2m profit in the third quarter. Over the nine months the account was only marginally in the red with losses of £1.3m, compared with £34.5m. Subsidence claims fell from £30m to £17.3m.

Anticipating greater profitability in this area GA aims to increase its exposure.

It has agreed to acquire a block of 216,000 policies sold by Cheltenham and Gloucester and formerly underwritten by Municipal Mutual, the local authority-owned insurer which withdrew from the market this year.

The deficit on the commercial property account was also reduced, from £53.4m to £23.1m.

Losses from mortgage indemnity policies, which insure mortgage lenders against losses on sales of repossessed houses, fell to £32m (£35m).

Overall UK underwriting losses were down to £133.1m (£259.7m), with premium income ahead at £920.1m (£906.9m).

Elsewhere, Canadian underwriting losses increased to C$11.9m (£5.9m) compared with C$1.5m last year, but losses in the Pacific fell from £20m to £5.2m.

Net investment earnings increased to £301.5m (£276m). Estate agency losses increased to £12.1m (£11.9m). Long term profits were virtually unchanged at £22.4m (£22.2m).

Body scanners keep Oxford in health

By Peggy Hollinger

STRONG DEMAND for body scanners helped Oxford Instruments, which makes the equipment in a joint venture with Siemens of Germany, report a marginal increase to £4.26m in interim pre-tax profits.

However, core businesses suffered a sharp drop, with the operating profit tumbling by £1m to £797,000. Turnover fell from £49.7m to £45.1m.

Mr Peter Williams, chairman and chief executive, said he was pleased with the results achieved in "these difficult times and difficult circumstances".

The interim dividend is maintained at 1.4p, payable from earnings 0.2p up at 5.9p.

The group expected the difficult trading conditions to continue into the second half, Mr Williams said, with only "insipid signs of recovery in the US". About 33 per cent of group sales are in the US.

Oxford Magnet Technology, which was incurring losses in 1989 before the creation of a joint venture with Siemens, contributed £2.9m, against £2.3m last time.

Mr Williams could not explain the continued buoyancy of the scanner market. "There has been no sign of the recession there," he said. He added, however, that perhaps a note of caution on the outlook for scanners was to be recommended, "but we also said that a year ago".

Profits were also boosted by a £370,000 gain on interest receivable to £500,000. Oxford finished the first half with net cash of £3.3m.

Two of Oxford's three loss-making businesses were returned to profit in the period. The remaining loss-maker, Plasma Technology, had cut its deficit substantially.

The group had no orders for its much-touted synchrotron – a device that enables semiconductor manufacturers to pack more circuits onto microchips than with conventional systems.

The prototype, being used for research by IBM, had been successful and Oxford was building a second on spec. So far it had cost about £4.5m.

COMMENT

The main message from Oxford appears to be steady as she goes. The slight bias towards the second half and exposure to the dollar market also offer some encouragement that forecasts of between £8m and £9m for the full year could be achievable. The worries might centre on the decline in the core businesses and just when the axe will fall on the body scanner market. Efforts to shore up the core business slide have produced patchy results, and it is unlikely anything more significant will be achieved without general economic recovery. Nevertheless, the shares – on a prospective p/e of about 16.6 – are looking more reasonable than they were in the heady days of the 1980s. Current investors might see some outperformance in the near future, but there might not be enough there yet to tempt buyers.

Oceana swings £158,000 into red

OCEANA Consolidated, which has interests in stockbroking and finance, swung into the red in the six months to end-September.

The pre-tax deficit for the period amounted to £158,000, against a profit of £115,000 last time.

The outcome was struck in spite of an increase in operating income from £4.35m to £4.79m and a rise in net interest receivable to £115,000 (£86,000).

Trading throughout the period fluctuated widely, the company said. The first quarter included the election, and business was at record levels. The second quarter, in contrast, was marred by exceptionally low trading volumes, reflecting uncertainty about the economy.

Losses per share were 2.43p (earnings of 1.47p).

Dealings in Cabra suspended at 2p

By Vanessa Houlder, Property Correspondent

SHARES IN Cabra Estates, the property company that owns two London football grounds, were yesterday suspended at 2p, pending clarification of its financial position.

The move, likely to lead to the appointment of receivers, followed demands by two of Cabra's banks on Monday for repayment of their loans.

The decision added further confusion to long-running negotiations about the grounds used by Chelsea and Fulham football clubs.

Cabra had been hopeful it would soon conclude talks to sell the grounds.

Chelsea said yesterday's announcement would have no impact on its negotiations for the acquisition of the grounds.

"We have been kept closely informed of the situation between Cabra and its bankers," the club said.

Negotiations were expected to "be satisfactorily concluded in the near future," it added.

Fulham Football Club, which is due to move next May when its lease expires on the Craven Cottage site, said its position would not necessarily be improved if Cabra went into receivership.

The future of Craven Cottage was up to its eventual owner, the club said.

Cabra said it was surprised by its banks' decision to demand repayment of their loans.

At an extraordinary meeting last Friday, Cabra said it hoped talks on debt restructuring and sale of the football grounds would soon be resolved.

"These demands [for repayment of debt] were totally unexpected," said Mr Gordon Young, chairman of Cabra.

"As constructive negotiations had continued up to the EGM on Friday and no indication had been received of this precipitative action."

Demand notices for debt repayment were issued by Midland Bank and The Royal Bank of Scotland, which has a charge over the football grounds.

They have been in debt restructuring talks for 10 months.

In the year to March, Cabra incurred pre-tax losses of £22.1m.

Its net assets fell to less than half the called-up share capital of £24m.

Intl Communication declines

Mr Nigel Balcombe, chairman of USM-quoted International Communication & Data, has resigned from the board because he faces a long period of convalescence after major abdominal surgery in October.

The leaking of the news of the consequent boardroom shuffle meant that the company's interim results – due to be released today – had to be announced to the Stock Exchange last night.

Pre-tax profits at the group, which provides names, addresses and information to the direct marketing/direct mail industry, fell to just £14,000 (£404,000) on lower turnover of £3.6m (£3.96m) for the six months to August 31.

However, Mr Daniel Unger, who was chairman from 1988 to 1989 and who has now stepped up from non-executive director to interim chairman, said that "a good first quarter" was offset by a "hard" second when turnover was down 9 per cent on last time. He added that the second half was "always by far the better half".

DIVIDENDS ANNOUNCED

		Current payment	Date of payment	Corres - ponding dividend	Total for year	Total last year
Anglian Water	int	6.8	Feb 26	6.3	-	19.3
Casket	int	0.3†	Mar 1	0.15	-	0.5
De La Rue	int	3.85†	Jan 4	3.5	-	15
Dickie (James)	fin	1	Nov 27	nil	1	nil
Hartlepools Wtr	int	22	Jan 1	21	-	50
Marshalls	int	1.25†	Apr 6	1.25	-	5
Merchant Retail	int	0.35†	Mar 1	1.1	-	1.1
Mercury Asset	int	3	Dec 17	2.6*	-	6.16*
Norcros	int	3.5	Feb 15	3.5	-	7
Oxford Instrumts	int	1.4	Mar 26	1.4	-	4.3
VSEL Consortium	int	9	Jan 19	8	-	25
VTR §	fin	2.2	Dec 18	2.2	3.4	3.4
Warburg (SG)	int	5.25	Dec 17	5.25	-	18

Dividends shown pence per share net except where otherwise stated. *Equivalent after allowing for scrip issue. †On increased capital. §USM stock.

Middle Eastern sellers push gold to 7-year low

By Kenneth Gooding, Mining Correspondent

Platinum plunged by $11.25 a troy ounce to close in London last night at $350.75 while silver sank 20 cents an ounce to 367.5 cents by the close. Both metals were affected by turmoil in the gold market and some aggressive selling by investment funds.

The funds had previously been buyers of silver and platinum in the expectation that Mr Bill Clinton would win the US presidential election and that this would bring back small investors to the market, encouraged by the hope that Mr Clinton's policies would spark economic growth. Platinum and silver are seen more as industrial than precious metals today, with demand and prices likely to reflect world economic activity.

When the funds were unsuccessful with attempts to push silver through the psychologically-important $4-an-ounce level, they decided to sell "and everyone joined in", said one dealer.

THE WEALTHY Middle East syndicates that have battered the gold bullion market several times in the past three years seemed to have scored another financial success yesterday by pushing the metal's price down to its lowest level in nearly seven years.

Silver and platinum prices were dragged down by gold's collapse in which commodity funds, following the lead of the oil-rich Middle Eastern speculators, played an important role.

Dealers said the market received no help from previous big buyers of gold who decided yesterday to hold back to see how far the price eventually would fall.

Producers in Australia and South Africa also contributed to the downward pressure. They were selling forward because the strength of the US dollar gave them good prices in their local currencies. Australian gold producers could collect nearly A$500 a troy ounce, about the best price for them since the Gulf war.

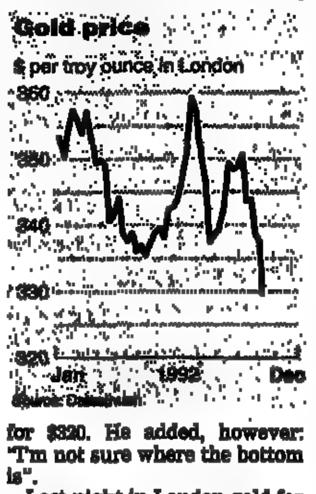
Mr George Milling-Stanley, first vice president, bullion sales, at Lehman Brothers in New York, pointed out that, not for the first time, the gold price was ignoring the supply-demand fundamentals. Demand for the yellow metal was likely to reach another record this year because sales to India "are going like a train" while 350 to 400 tonnes of gold had been imported to China through "unofficial" channels.

Meanwhile, supply from gold mines was levelling off.

Mr Milling-Stanley said chartists believed that when the price of gold for delivery in December dropped below $340 an ounce it was heading for $320. He added, however: "I'm not sure where the bottom is".

Gold price

$ per troy ounce in London



Source: Datastream

Last night in London gold for immediate delivery closed at $329.80, down $4.65 from Monday's close.

However, Mr Milling-Stanley also insisted that the Middle East speculators and the commodity funds were "very heavily short and there is a lot of short covering to be done at some stage. So the price could bounce back very quickly".

The funds and the Arabs started to go short when December gold reached $353 an ounce two months ago, he said. So they already had a $30-an-ounce profit on the first ounces they bought.

North American gold producers were not selling below $340 an ounce.

Mr Ian Bayer, president of Hemlo Gold Mines, the Canadian producer, on a promotional tour speaking to analysts in Europe, said he believed that the long-term price range for gold was $350 to $400 an ounce. "But I can't see much upside in the near term."

Mr Bayer said he believed central banks, big holders of gold stocks, had been net sellers this year, and dealers also suggested central banks had been selling the metal in 50,000-ounce tranches for the past two months.

Industrial sugar users seek end of EC quotas

By David Blackwell

RADICAL REFORM of the 23-year-old European Community sugar regime, including the abolition of the national quota system, is being demanded by Europe's industrial sugar users.

The Committee of Industrial Users of Sugar yesterday launched a campaign for change of the regime, which it said costs the EC taxpayer and consumer Ecu6bn (£4.85bn) a year. The present regime is due to end next summer after being rolled over for two years last in 1991.

Members of the CIUS, which represents the sugar buying interests of Europe's food and beverage industries, account for more than half the EC's sugar consumption. Its call for reform comes a year almost to the day after a savage attack on the regime by the EC Court of Auditors. In a report last November the court said the regime had failed to establish a common market; had generated the highest degree of overproduction of any community farm policy; had inhibited the rational organisation of output according to comparative advantage within Europe; and had depressed world sugar prices while passing on excessive charges to EC consumers.

The CIUS is calling for the abolition of both national quotas and the guaranteed price for sugar beet. A guaranteed price of white sugar should be retained, it argues, but should be progressively reduced until supply equates to community consumption.

At present the combination of quotas, high prices and imports each year provides the EC with about 40 per cent more sugar than it needs.

However, if a balance between supply and demand were to be achieved, efficient EC producers "may well be able to demonstrate their efficiency in world terms by selling on those markets without need of subsidies," the CIUS believes.

Mr Tom Harrison, president of the CIUS, said that failure to implement radical reform would demonstrate the European Commission's inability "to provide the framework for a competitive, efficient market required to meet the needs of the consumers." Such a framework could not be achieved simply by rolling over the current arrangements again, he warned.

EC prices were 35 per cent above what they should be because of a system designed "to encourage and ossify inefficiency".

Cuba fumes over Havana name-game

Frank Gray reports on a legal battle over famous cigar brands

CUBATABACO, the state company responsible for supplying Cuba's famous Havana hand-made cigars, is locked in an angry dispute with its largest customer, Tabacalera, the Spanish state cigar giant.

Tabacalera, which owns the three Havana marques, Upmann, Montecristo and Larranaga, has withdrawn those brands from several key European markets, notably France, as a result of litigation started in the 1980s by the three brands' former owners, Cuban Cigar Brands (Curacao) of the US. Tabacalera bought the brands from the US group a few years ago and carried the case forward in the French courts.

The French court ruled last summer that Tabacalera's French counterpart, Seita, could no longer sell the Cuban-made brands in France. According to Cubatabaco officials, this has caused a row between it and Tabacalera that could see the withdrawal of the same three marques from other markets.

Spain last year imported 28m cigars from Cuba, more than a third of its 80m exports. Mr Francisco Padron, head of Cubatabaco, said in an interview that Cuba was prepared to resume exporting the same three marques to France but with different labels "as early as next year". It might resume sales to Spain as well, Mr Padron said, but this would require the setting up of an independent importing agency in Spain and aggravating already tense relations with Tabacalera.

Cubatabaco was in discussions with Tabacalera over the impasse. "They are being difficult, but they are no longer a complete monopoly. This means we can be an importer into Spain," Mr Padron said. "Tabacalera's profits from Havana cigar imports are too big for our taste, even though it is our biggest market, although our supplies have slipped from 34m a few years ago to 28m last year."

The nub of the dispute is the fact that the three marques, of which Upmann and Montecristo are by far the most famous, are produced in other cigar-manufacturing countries, such as the Dominican Republic (as are numerous other famous Havana marques such as Partagas and Romeo y Julieta, though these are not, as yet, subjects of litigation).

This anomaly arose in the 1960s following the Cuban revolution and the subsequent expropriation of the famous cigar companies. Many cigar company proprietors switched production offshore but did not have the economic clout to raise a lawsuit against Cuba over the continued production within Cuba of the same brands. This only became possible when the US group took control of some of the offshore brands, which has now moved to Tabacalera. Tabacalera controls the brand names for all markets outside the US.

The sale side-by-side in some overseas markets of Havana and non-Havana cigars bearing the same labels is creating market ambiguity, say Cubatabaco officials, and diverts attention from the acknowledged supremacy of Havana cigars.

This has prompted Cubatabaco to undertake new strategies in Europe to boost sales and broaden its revenue base.

The sale side-by-side of Havana and non-Havana cigars bearing the same labels is said to be creating 'market ambiguity'

A few years ago, a Swiss holding company was established by Cubatabaco to take a minority stake in importing companies, such as Coprova of France, a small competitor to Seita, and Hunters and Frankau of the UK, the prime UK importer.

Mr Padron said that strategy was being expanded to include the establishment of Havana Houses in certain markets. These were franchise retail outlets, which would be supplied by Cubatabaco-approved suppliers. One had been set up in Cancun, Mexico, he said, another was planned for next year in Paris and a so-called Cohiba Divan had been established in Hong Kong. Others were being considered for Tokyo and the Middle East.

A third element of the strategy is beefing up production of Cuba's post-revolution "own brand" the top marque Cohiba cigar, partly to fill the void created by the departure of Swiss-based Davidoff from the Havana market into Dominican Republic cigars.

Cubatabaco last week used the occasion of the Fifth Centenary Anniversary Conference in Havana celebrating Christopher Columbus's discovery of tobacco (for it was in Cuba that the explorer saw Indians smoking rolled up tobacco leaves on his first voyage) to display the latest range of Cohiba cigars. These, at least, will be exempt from brand-ownership disputes abroad, officials point out.

One official noted that, for its part, Cuba had successfully caused the withdrawal of 50 brands from the international market place for erroneously claiming to be Havana cigars.

Mr Padron acknowledged that the Cuban tobacco industry was undercapitalised. "We are having good crops, but the problems are in the fields (58,000 hectares were under cultivation). We are suffering investment shortages," he said, "some of which have been caused by the collapse of Comecon."

Cuba, he said, was supplying 10m-11m mainly machine-made cigars a year into eastern Europe, partly paid for through barter arrangements, but this had been shaken up. Cuba now was having to reorientate itself to the eastern European markets, through the setting up of "joint accounts" in all the region's capital cities.

Of total sales last year of 250m cigars, 80m were exported. Export revenues for all Cuban tobacco was $115m, of which about $75m came from cigars, he said.

US cuts duty on Canadian magnesium

By Robert Gibbens in Montreal

THE US Department of Commerce has confirmed that Norsk Hydro Canada's revised electricity contract with Hydro-Quebec does not amount to a subsidy. This means that Canadian pure magnesium metal will now face a 7.6 per cent US countervailing duty, down from 21.6 per cent set last July.

Norsk Hydro Canada, which operates a US$400m export magnesium plant near Montreal, has said it will continue to use Canada-US Free Trade Pact channels to try to get the remaining duty withdrawn.

Pure magnesium still faces a US anti-dumping duty of 31.33 per cent, in addition to the 7.6 per cent countervailing duty. Alloy magnesium is not subject to the anti-dumping duty.

Tax changes for Mexican oil company

By Damian Fraser and Stephen Fidler in Mexico City

THE MEXICAN government is to make sweeping changes to the way it taxes Petroleos Mexicanos, the Mexican state oil company and the fifth largest in the world. The reforms are intended to enable Pemex to operate more as if it was a private, international oil company.

The new scheme will not alter the amount of tax Pemex pays but will reorganise the way in which it is levied. At present Pemex simply pays around 90 per cent of its profits to the finance ministry; under the new rules it will pay a special tax linked to the amount of oil it extracts from the ground, but in all other ways will be treated as private company for tax purposes. Any residual profits will be paid back to the government in the form of dividends.

The difference between the retail price of petrol and the international market price will be captured by the government in the form of an excise tax.

Mr Francisco Rojas, the head of Pemex, hopes the changes will be made by the end of the year. "Pemex cannot analyse itself internally as a business when the tax scheme is not related to its activities but only to collection," he says. "In this sense I believe that we are going to take an important step this year, perhaps not specifically in the amount we pay but in the philosophy with respect to the taxes that Pemex owes."

Officials familiar with the proposed changes say the government has been influenced by the system used in the UK oil industry, where taxes on the economic rent implied by extracting oil are isolated from taxes on the company's ordinary operations.

Pemex was recently divided into four subsidiaries: exploration and production; gas and basic petrochemicals; secondary petrochemicals; and refining. The tax changes will enable the company to evaluate the economic profitability of the subsidiaries. Mr Rojas emphasises that at the beginning of next year transactions between these subsidiaries will be conducted according to commercial prices, and full results of each subsidiary will be published.

Once the proposed tax scheme is in place it will be relatively easy to allow private equity investment in exploration and drilling, although this is still prohibited by the constitution. The government says it has no plans to relax that restriction.

Mr Rojas says Pemex will form alliances with the private sector and encourage co-investments where it is convenient, sell off assets where it suits the company and where the private sector can add value, and close down plants that are not profitable and cannot be modernised. He will pay special attention to the international side of Pemex, forging more international strategic alliances, and extending its futures operations.

Pemex is facing pressure from the tight government budget next year, and is thus intending to finance some investments – in particular refining – off-budget. It is looking for foreign partners to build a refinery and lease it to Pemex, which would be another break with tradition.

MINOR METALS PRICES

Prices from Metal Bulletin (last week's in brackets).

ANTIMONY: European free market 99.6 per cent, $ per tonne, in warehouse, 1,675-1,735 (1,690-1,750).

BISMUTH: European free market, min. 99.99 per cent, $ per lb, tonne lots in warehouse, 2.25-2.45 (same).

CADMIUM: European free market, min. 99.5 per cent, $ per lb, in warehouse, 0.65-0.75 (same).

COBALT: European free market, 99.5 per cent, $ per lb, in warehouse, 15.75-16.75 (15.50-16.50).

MERCURY: European free market, min. 99.99 per cent, $ per 76 lb flask, in warehouse, 130-150 (135-150).

MOLYBDENUM: European free market, drummed molybdic oxide, $ per lb Mo, in warehouse, 2.05-2.15 (2.10-2.20).

SELENIUM: European free market, min 99.5 per cent, $ per lb, in warehouse, 4.80-5.50 (same).

TUNGSTEN ORE: European free market, standard min. 65 per cent, $ per tonne unit (10 kg) WO_3, cif, 45-55 (same).

VANADIUM: European free market, min. 98 per cent, $ a lb V_2O_5, cif, 1.80-2.00 (same).

URANIUM: Nuexco exchange value, $ per lb, U_3O_8, 8.00 (8.75).

LME WAREHOUSE STOCKS (As at Monday's close) tonnes

Aluminium	+1,100	to 1,418,090
Copper	−1,325	to 319,160
Lead	−200	to 105,275
Nickel	+1,104	to 58,320
Zinc	−4,980	to 377,575
Tin	−145	to 14,346

WORLD COMMODITIES PRICES

MARKET REPORT

BASE METAL prices improved across the board on the LME as the market staged corrective technical rallies after the recent sustained falls. Dealers said many markets had become oversold, and were susceptible to a correction, especially as there were some falls in warehouse stocks. "Nothing goes down in a straight line forever," one said. But for rallies to be maintained, the markets would need some fresh fundamental stimulus. London **COCOA** prices closed just below a fresh nine-month high, boosted by a short covering rally in New York and sterling weakness. The market was also aided by some signs of buying interest from the industry, while producers appeared to have returned to the sidelines after sales late last week. New York's arabica **COFFEE** market was firmer on short covering after the recent falls. "We exacerbated the move to the downside," said one analyst, adding that fundamental news would be needed to take the prices back towards 70 cents.

Compiled from Reuters

London Markets

SPOT MARKETS

Crude oil (per barrel FOB)(Dec)		+ or -
Dubai	$17.65-7.80u	+0.45
Brent Blend (dated)	$19.60-9.65	+.375
Brent Blend (Dec)	$19.55-9.60	+0.35
W.T.I (1 pm est)	$20.60-0.65u	+.325
Oil products (NWE prompt delivery per tonne CIF)		+ or -
Premium Gasoline	$207-209	
Gas Oil	$185-186	+1
Heavy Fuel Oil	$95-97	
Naphtha	$192-193	+2
Petroleum Argus Estimates		
Other		+ or -
Gold (per troy oz)♣	$329.80	-4.65
Silver (per troy oz)♣	367.50c	-20
Platinum (per troy oz)	$350.75	-11.25
Palladium (per troy oz)	$92.25	-2.6
Copper (US Producer)	99.50	-1
Lead (US Producer)	38.4c	
Tin (Kuala Lumpur market)	14.30r	+0.2
Tin (New York)	264.5c	+3
Zinc (US Prime Western)	62.0c	
Cattle (live weight)†	107.58p	+1.25*
Sheep (live weight)†♠	72.97p	+0.13*
Pigs (live weight)†	88.85p	+3.65*
London daily sugar (raw)	$228.0z	
London daily sugar (white)	$263.5z	+4
Tate and Lyle export price	£259.0	+2
Barley (English feed)	£127.5u	
Maize (US No. 3 yellow)	£148.0	
Wheat (US Dark Northern)	Unq	
Rubber (Dec)♥	63.25p	-0.5
Rubber (Jan)♥	63.25p	-0.5
Rubber (KL RSS No 1 Dec)	223.5m	
Coconut oil (Philippines)§	$512.5y	+2.5
Palm Oil (Malaysian)§	$412.5t	
Copra (Philippines)§	$332.5	+2.5
Soyabeans (US)	£165.5z	+1
Cotton "A" index	63.20c	
Wooltops (64s Super)	414p	

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. t-Jan/Mar. y-Jan/Feb u-Dec. w-Oct/Nov. z-Nov/Dec. †Meat Commission average fatstock prices.* change from a week ago ♥London physical. §CIF Rotterdam. ♣ Bullion market close. m-Malaysian cents/kg. ♠Sheep prices are now live weight prices.

SUGAR – London FOX ($ per tonne)

Raw	Close	Previous	High/Low	
Dec	197.00	196.00	198.00	
Mar	196.00		195.00	194.80
May	199.00	199.00	199.00	
White	**Close**	**Previous**	**High/Low**	
Dec	262.50	263.50	263.00	261.00
Mar	258.50	260.00	259.00	257.50
May	260.80	262.50	262.00	260.00
Aug	266.20	267.90	267.00	266.00
Oct	255.20	256.90	255.50	254.80
Dec	255.30		255.00	255.00

Turnover: Raw 46 (64) lots of 50 tonnes. White 2510 (1583) Paris- White (FFr per tonne): Dec 1429.62 Mar 1422.51

CRUDE OIL – IPE $/barrel

	Close	Previous	High/Low	
Dec	19.45	19.50	19.70	19.44
Jan	19.46	19.48	19.71	19.45
Feb	19.48	19.53	19.68	19.47
Mar	19.41	19.47	19.52	19.41
Apr	19.40	19.45	19.51	19.42
Jun	19.24	19.29	19.41	19.41
Jul	19.25	19.30	19.02	19.02
IPE Index	19.28	19.38		

Turnover 26342 (26383)

GAS OIL – IPE $/tonne

	Close	Previous	High/Low	
Nov	180.25	178.25	182.50	180.00
Dec	182.00	179.50	184.00	181.25
Jan	184.00	181.50	185.75	183.00
Feb	184.50	181.75	186.50	183.25
Mar	181.00	179.50	182.25	180.50
Apr	177.25	175.25	179.00	177.25
May	174.50	173.00	175.50	174.50
Jun	173.50	172.25	173.50	173.50

Turnover 22072 (18861) lots of 100 tonnes

JUTE

C and F Dundee: BTC US$355, BWG US$370, BTD US$320, BWD US$300. C and F Antwerp: BTC US$335, BWC US$335, BTD US$315, BWD US$315.

COTTON

Liverpool-Spot and shipment sales for the week ending 6 November amounted to 160 tonnes against 176 tonnes the previous week. Sales were moderate and occurred mainly in Cameroon and Russian growths.

COCOA – London FOX £/tonne

	Close	Previous	High/Low	
Dec	726	718	730	715
Mar	757	746	763	743
May	774	761	778	762
Jul	790	780	795	779
Sep	807	796	812	796
Dec	831	820	838	816
Mar	857	844	858	842
May	876	861	874	874
Jul	887	876	890	886

Turnover: 7803 (9450) lots of 10 tonnes

ICCO Indicator prices (SDRs per tonne). Daily price for Nov 9 773.39 (781.62) 10 day average for Nov 10 783.43 (781.34)

COFFEE – London FOX $/tonne

	Close	Previous	High/Low	
Nov	880	869	880	860
Jan	906	904	907	889
Mar	923	922	923	907
May	917	916	910	900
Jul	925	927	915	909
Sep	940	940	925	921

Turnover:2622 (2084) lots of 5 tonnes

ICO Indicator prices (US cents per pound) for Nov 9: Comp. daily 54.54 (55.25) 15 day average 55.54 (55.39)

POTATOES – London FOX £/tonne

	Close	Previous	High/Low
Apr	85.0	85.0	

Turnover 262 (71) lots of 20 tonnes.

SOYAMEAL – London FOX £/tonne

	Close	Previous	High/Low	
Jun	141.00	142.50	141.00	140.50

Turnover 125 (0) lots of 20 tonnes.

FREIGHT – London FOX $10/index point

	Close	Previous	High/Low	
Nov	1240	1210	1240	1220
Dec	1245		1245	1225
Jan	1265	1274	1265	1265
Apr	1293	1275	1293	1277
Oct	1350		1350	
Jan	1360		1360	
BFI	1156	1146		

Turnover 223 (25)

GRAINS – London FOX £/tonne

Wheat	Close	Previous	High/Low	
Nov	128.50		128.50	128.50
Jan	130.70	129.40	130.70	130.05
Mar	133.80	132.30	133.80	132.85
May	136.60	135.35	136.60	136.10
Jun	137.50	136.60	137.50	137.00
Sep	105.50		105.50	
Nov	107.50	107.00	107.50	
Barley	**Close**	**Previous**	**High/Low**	
Nov	127.25	126.50	127.25	127.00
Jan	129.75	128.50	129.75	129.05
Mar	132.10	131.45	132.10	131.80

Turnover: Wheat 420 (115), Barley 67 (15). Turnover lots of 100 Tonnes.

PIGS – London FOX (Cash Settlement) p/kg

	Close	Previous	High/Low
Nov	118.00	118.30	117.00
Feb	104.50	104.30	104.00
Apr	106.80	104.30	106.50

Turnover:21 (17) lots of 3,250 kg

LONDON METAL EXCHANGE (Prices supplied by Amalgamated Metal Trading)

	Close	Previous	High/Low	AM Official	Kerb close	Open interest
Aluminium, 99.7% purity ($ per tonne)					Total daily turnover 22,395 lots	
Cash	1146.5-47.5	1144-45	1140.5/1140	1140.5-41		
3 months	1171-72	1168-69	1173/1168	1164.5-65	1173-74	177,827 lots
Copper, Grade A (£ per tonne)					Total daily turnover 37,517 lots	
Cash	1406-08	1384-85	1409/1402	1402-2.5		
3 months	1431-32	1411-12	1438/1428	1428-29	1436-37	181,777 lots
Lead (£ per tonne)					Total daily turnover 2,825 lots	
Cash	298-300	296.5-97.5	294.5	293.5-94		
3 months	310-11	308-09	313/308	306-6.5	311-12	24,778 lots
Nickel ($ per tonne)					Total daily turnover 10,634 lots	
Cash	5555-65	5465-75	5575	5570-75		
3 months	5630-40	5535-41	5650/5640	5645-50	5605-10	35,003 lots
Tin ($ per tonne)					Total daily turnover 2,315 lots	
Cash	5725-35	5840-50	5695/5690	5690-95		
3 months	5770-75	5880-85	5775/5710	5730-35	5750-60	10,094 lots
Zinc, Special High Grade ($ per tonne)					Total daily turnover 17,373 lots	
Cash	1033.5-34.5	1016.5-17.5		1026-27		
3 months	1054-55	1037-38	1068/1059	1047.5-48	1046-49	70,563 lots

LME Closing £/$ rate: SPOT: 1.5145 3 months: 1.5032 6 months: 1.4946 9 months: 1.4899

LONDON BULLION MARKET (Prices supplied by N M Rothschild)

Gold (troy oz)	$ price	£ equivalent
Close	329.60-330.00	
Opening	330.20-330.60	
Morning fix	330.20	218.398
Afternoon fix	330.35	218.053
Day's high	330.50-330.70	
Day's low	329.10-329.50	

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	1.81	6 months	2.15
2 months	1.95	12 months	2.55
3 months	1.98		

Silver fix	p/troy oz	US cts equiv
Spot	244.90	371.30
3 months	248.95	374.60
6 months	252.40	377.65
12 months	259.05	384.85

GOLD COINS

	$ price	£ equivalent
Krugerrand	329.50-332.50	218.00-220.00
Maple leaf	338.90-342.15	-
New Sovereign	78.00-82.00	52.00-54.00

TRADED OPTIONS

Aluminium (99.7%)	Calls		Puts	
Strike price $ tonne	Dec	Mar	Dec	Mar
1100	58	90	3	8
1200	4	28	46	45
1300	3	5	142	121
Copper (Grade A)	**Calls**		**Puts**	
2150	26	64	33	52
2200	9	41	66	79
2250	3	25	109	112
Coffee	**Jan**	**Mar**	**Jan**	**Mar**
750	158	177		4
800	111	133	3	10
850	66	95	10	22
Cocoa	**Dec**	**Mar**	**Dec**	**Mar**
675	53	95		13
700	31	77	3	20
725	13	61	10	29
Brent Crude	**Dec**	**Jan**	**Dec**	**Jan**
1900		93	5	32
1950	6	62	11	52
2000		35		78

New York

GOLD 100 troy oz.; $/troy oz.

	Close	Previous	High/Low	
Nov	329.7	332.6	0	0
Dec	330.1	333.1	331.8	328.8
Jan	330.7	333.8	0	0
Feb	331.4	334.5	332.6	330.5
Apr	332.7	335.8	334.0	332.0
Jun	334.2	337.2	335.5	333.1
Aug	335.8	338.9	336.6	335.9
Oct	337.8	340.7	0	0
Dec	339.5	342.6	340.3	338.6

PLATINUM 50 troy oz; $/troy oz.

	Close	Previous	High/Low	
Jan	345.9	357.6	353.0	345.0
Apr	345.6	357.3	351.5	345.5
Jul	345.3	357.0	353.0	346.5
Oct	347.3	359.0	351.0	351.0

SILVER 5,000 troy oz; cents/troy oz.

	Close	Previous	High/Low	
Nov	364.0	369.6	0	0
Dec	364.5	370.2	370.0	363.0
Jan	365.7	371.4	368.5	366.5
Mar	368.1	373.8	373.5	368.0
May	370.8	376.7	376.0	370.0
Jul	373.5	379.4	379.5	372.0
Sep	376.1	382.0	380.5	375.0
Dec	380.6	386.5	386.5	380.0
Jan	382.0	387.9	0	0
Mar	385.7	391.7	390.0	389.5

HIGH GRADE COPPER 25,000 lbs; cents/lbs

	Close	Previous	High/Low	
Nov	95.20	94.40	95.40	95.00
Dec	95.60	94.80	96.10	95.35
Jan	96.05	95.25	95.90	95.90
Feb	96.45	95.65	96.50	96.50
Mar	96.75	96.05	97.10	96.50
Apr	97.10	96.45	0	0
May	97.50	96.95	97.90	97.40
Jun	97.75	97.25	0	0
Jul	98.15	97.55	98.50	98.10
Aug	98.40	97.95	0	0

CRUDE OIL (Light) 42,000 US galls $/barrel

	Close	Previous	High/Low	
Dec	20.47	20.62	20.75	20.45
Jan	20.57	20.71	20.84	20.56
Feb	20.59	20.73	20.88	20.58
Mar	20.57	20.70	20.78	20.59
Apr	20.54	20.67	20.78	20.59
May	20.51	20.64	20.74	20.57
Jun	20.48	20.61	20.57	20.53
Jul	20.45	20.58	20.65	20.51
Aug	20.42	20.55	20.63	20.47
Sep	20.39	20.52	20.58	20.44

HEATING OIL 42,000 US galls, cents/US galls

	Close	Previous	High/Low	
Dec	58.10	58.36	59.00	58.00
Jan	59.37	59.59	60.25	59.36
Feb	59.97	60.08	60.60	59.80
Mar	58.97	59.10	59.40	58.80
Apr	57.62	57.73	57.90	57.55
May	56.47	56.58	56.70	56.35
Jun	55.82	55.93	56.00	55.60
Jul	55.97	56.08	56.05	55.80
Aug	56.57	56.68	56.65	56.55
Sep	57.72	57.78	57.80	57.80

COCOA 10 tonnes;$/tonnes

	Close	Previous	High/Low	
Dec	1006	970	1010	983
Mar	1050	1027	1057	1033
May	1080	1058	1084	1063
Jul	1111	1091	1118	1096
Sep	1136	1112	1140	1118
Dec	1169	1147	1170	1152
Mar	1203	1185	1196	1184
May	1232	1214	0	0
Jul	1262	1244	1245	1240
Sep	1285	1267	0	0

COFFEE "C" 37,500lbs; cents/lbs

	Close	Previous	High/Low	
Dec	63.20	61.95	63.40	61.65
Mar	65.75	64.95	65.80	64.65
May	68.15	67.60	69.20	67.10
Jul	70.75	69.35	70.75	69.10
Sep	72.20	70.70	72.30	70.70
Dec	74.85	73.20	74.50	73.50
Mar	76.50	76.05	0	0

SUGAR WORLD "11" 112,000 lbs; cents/lbs

	Close	Previous	High/Low	
Mar	8.74	8.84	8.81	8.72
May	8.86	8.94	8.91	8.85
Jul	8.91	9.00	8.97	8.89
Oct	8.92	8.99	8.95	8.89
Mar	8.93	9.01	0	0

COTTON 50,000; cents/lbs

	Close	Previous	High/Low	
Dec	55.57	55.73	56.65	55.20
Mar	56.43	56.55	56.50	56.01
May	57.15	57.28	57.40	56.90
Jul	58.00	58.10	58.20	57.80
Oct	58.45	58.53	58.35	58.25
Dec	58.67	58.70	58.70	58.30
Mar	59.35	59.30	0	0

ORANGE JUICE 15,000 lbs; cents/lbs

	Close	Previous	High/Low	
Nov	94.55	95.35	95.80	94.50
Jan	93.15	94.00	94.10	93.10
Mar	94.80	95.50	95.75	94.75
May	95.60	96.40	96.30	95.60
Jul	95.60	96.40	96.15	95.85
Sep	95.60	96.40	96.15	95.85
Nov	95.00	95.80	96.00	96.00
Jan	95.00	95.80	95.80	95.80
Mar	95.00	95.80	0	0

INDICES

REUTERS (Base: September 18 1931 = 100)

Nov.10	Nov.9	mnth ago	yr ago
1644.1	1646.4	1592.2	1625.0

DOW JONES (Base: Dec. 31 1974 = 100)

	Nov.9	Nov.6	mnth ago	yr ago
Spot	114.77	115.02	114.19	112.82
Futures	115.73	116.59	115.13	121.17

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel

	Close	Previous	High/Low	
Nov	549/2	549/2	550/0	547/2
Jan	552/2	551/0	553/0	549/6
Mar	558/4	557/0	559/0	555/6
May	565/2	563/0	565/6	562/0
Jul	571/4	568/6	571/6	568/0
Aug	573/4	570/6	573/4	571/0
Sep	572/4	569/2	572/4	570/2
Nov	580/2	576/0	581/0	576/0

SOYABEAN OIL 60,000 lbs; cents/lb

	Close	Previous	High/Low	
Dec	19.69	19.57	19.74	19.58
Jan	19.80	19.66	19.82	19.65
Mar	19.98	19.83	20.01	19.84
May	20.15	19.97	20.15	19.98
Jul	20.28	20.11	20.30	20.12
Aug	20.27	20.08	20.35	20.20
Sep	20.30	20.11	20.40	20.24
Oct	20.30	20.16	20.40	20.30

SOYABEAN MEAL 100 tons; $/ton

	Close	Previous	High/Low	
Dec	177.5	178.1	178.2	176.9
Jan	178.5	178.9	179.0	177.8
Mar	180.2	180.2	180.3	179.5
May	182.2	181.4	182.2	181.3
Jul	184.4	183.7	184.4	183.5
Aug	185.2	184.6	185.3	184.5
Sep	186.3	185.6	186.6	185.5
Oct	188.0	187.0	188.0	186.5

MAIZE 5,000 bu min; cents/56lb bushel

	Close	Previous	High/Low	
Dec	206/4	206/4	207/0	206/0
Mar	216/2	216/0	216/4	215/6
May	224/0	223/4	224/2	223/2
Jul	228/6	228/2	229/0	227/6
Sep	233/4	232/6	233/6	232/4
Dec	238/0	238/0	238/4	237/4
Mar	244/4	244/2	245/0	244/2

WHEAT 5,000 bu min; cents/60lb-bushel

	Close	Previous	High/Low	
Dec	364/4	362/6	365/4	361/4
Mar	361/6	359/2	362/0	358/0
May	343/4	341/4	343/4	342/0
Jul	316/2	316/0	317/6	316/0
Sep	322/4	322/0	323/0	322/0
Dec	333/0	332/4	333/0	332/2

LIVE CATTLE 40,000 lbs; cents/lbs

	Close	Previous	High/Low	
Dec	73.575	74.225	74.200	73.550
Feb	71.925	72.225	72.200	71.750
Apr	72.225	72.375	72.450	72.150
Jun	69.100	69.325	69.425	69.050
Aug	68.000	68.150	68.200	67.950
Oct	68.550	68.650	68.550	68.400
Dec	68.725	68.900	68.900	68.725

LIVE HOGS 40,000 lb; cents/lbs

	Close	Previous	High/Low	
Dec	42.725	43.250	43.525	42.675
Feb	43.025	43.675	43.750	42.925
Apr	40.775	41.025	41.250	40.725
Jun	45.025	45.225	45.350	44.950
Jul	44.575	44.925	45.000	44.550
Aug	43.475	43.600	43.800	43.250
Oct	40.600	40.700	40.600	40.375
Dec	42.500	42.650	42.500	42.450

PORK BELLIES 40,000 lbs; cents/lb

	Close	Previous	High/Low	
Feb	40.925	41.850	41.775	40.850
Mar	40.900	41.825	41.750	40.650
May	42.450	43.325	43.000	42.050
Jul	42.900	43.700	43.450	42.400
Aug	42.350	43.200	0	41.800

LONDON STOCK EXCHANGE

Stock market regains its confidence

By Terry Byland, UK Stock Market Editor

FIRMNESS in the US dollar stocks and confidence that tomorrow's autumn economic statement in the UK will be accompanied by a cut in domestic base rates took the London stock market ahead yesterday. Although economic data on both sides of the Atlantic gave little encouragement, share prices moved up steadily and closed near to the day's best levels.

Trading volume increased, swollen by a handful of large share placings and by the market's response to trading news and other corporate developments. A rally in crude oil prices stimulated recoveries in the leading oil stocks, and the pharmaceuticals attracted buyers again.

The FT-SE Index, uncertain at first in the wake of an unconvincing performance from Wall Street overnight, climbed by more than 22 points at midsession, moving significantly into Footsie 2,700-plus territory once more.

London held up well against another cool start to the trading session in New York, which was three Dow points down when the UK market closed. At the final reading the FT-SE Index was 19.2 ahead at 2,714.6.

Seaq volume of 615.8m shares, against 517.5m, incorporated heavy trading in the food manufacturing sector, where a placing of shares in United Biscuits helped finance an acquisition in Australia; in food retailers, Asda saw heavy volume.

The stock market appears to have factored in a one-point cut in domestic base rates, expected to be announced either in Thursday's economic statement from Mr Norman Lamont, the UK chancellor of the exchequer, or very shortly afterwards. But the domestic economic scene remained bleak, with comments at the conference of the Confederation of British Industry underlining the severe pressures on British manufacturers. Political uncertainties were fuelled by proposals for an offical inquiry into the sales of defence equipment to Iraq during the run-up to the Gulf war.

Firmness in the US dollar was reflected in gains in ICI, in spite of a downgrading from a New York analyst, Glaxo, Rank Organisation and other US-influenced stocks. There was strong support for BP and Shell after New York opened, although US holders were sellers of some North Sea stocks.

The stock market retained its optimism in spite of disappointing producer price statistics in both the UK and US. Once again, second line issues outperformed the stocks in the Footsie list, indicating a widening of investment interest on the part of the institutions.

Retail, or customer, business in equities topped the £1bn mark again on Monday, extending the period of relatively high business levels. But confidence among City securities firms was dented by a poor interim statement from S.G. Warburg, the merchant banking and securities trading house, where the share price fell heavily.

Share gains among the domestic store and consumer retailer groups were modest, in spite of the expectation of another early cut in base rates. Restraining the sector were hints of an impending rights issue from a leading leisure group believed to be considering an acquisition.

The potential implications of the reported debt rescheduling at GPA, the world's biggest aircraft lessor, continued to overhang the aircraft industry.

TRADING VOLUME IN MAJOR STOCKS

Volume 000's · Closing Price · Day's change

Based on the trading volume for a selection of Alpha securities dealt through the SEAQ system yesterday until 4.30pm. Trades of one million or more are rounded down.

Account Dealing Dates

*First Dealings:	Nov 2	Nov 16	Nov 30
Option Declarations:	Nov 12	Nov 26	Dec 10
Last Dealings:	Nov 13	Nov 27	Dec 11
Account Day:	Nov 23	Dec 7	Dec 21

*New time dealings may take place from 8.30am two business days earlier.

Attack renewed on Lasmo

BEAR raiders, out in force against Lasmo on Monday, reappeared yesterday afternoon as Wall Street opened, and drove the share price down again amid a flurry of bearish rumours and exceptionally heavy turnover.

The shares rose strongly in early trading, moving up from an overnight 164p to 168p, and were trading comfortably around 165p when Wall Street opened. They then came under significant pressure, with US investors said to be big sellers amid a welter of wild rumours, including hints of an imminent shift in dividend policy, an impending profits warning and big losses on currency trading. At worst, Lasmo touched 154p before steadying and closing a net 9 down at 155p. Turnover reached a heavy 10m shares.

Sources close to Lasmo were sceptical about the rumours. Some believed the selling reflected hints that Lasmo may be considering a stock offer in New York and that some US investors were selling shares with the intention of buying them back after the offering.

Rolls-Royce hit

Fears for the next year's dividend in the wake of the financial difficulties at GPA sent Rolls-Royce falling sharply for the second day in a row.

At the day's worst the shares were down 12½ at 112p, and backwardation – a situation in which the offer and bid prices are temporarily reversed – was seen late in the session.

Analysts fear that the problems at GPA, which has orders for 45 Boeing 757s due to be powered by Rolls-Royce engines, may have a severe effect on the 1993 profits of the aero-engine maker, raising worries about the dividend. Researchers also pointed to problems at the company's NEI subsidiary.

The strong market trend helped the stock to rally a little to end a net 9¼ off at 115p after heavy turnover of 7.4m shares.

UB placing

Shares in United Biscuit fell back after the food group said it was making an £80m share placing to help fund the £198m purchase of an Australian snacks company from Coca-Cola.

Dealers said the 24.1m shares were placed at 332p – 14 below UB's opening price yesterday – by County NatWest and S.G. Warburg. However, as the market closed, rumours continued to suggest that some of the stock had proved difficult to shift.

Although some analysts expressed caution over the level of UB's debt – which could reach 70 per cent by next year – they were generally supportive over the move. Nomura raised its profit forecast from £196.5m to £204.25m for 1993, with earnings per share of 26.8p. UB's shares closed 9 off at 337p.

The market was shaken by the extent of the profits decline revealed at SG Warburg, the merchant bank widely viewed as the UK's most successful integrated investment house since the Big Bang reforms of the 1980's. Warburg shares plunged 45 to 479p with a hefty 2.5m shares changing hands.

Analysts moved quickly to downgrade forecasts after the post-results meeting. Full-year estimates were chopped by around £50m, to the £125m to £130m level and for next year by around £20m.

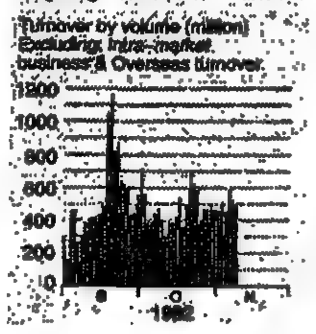
Hambros, reporting interims this morning and expected to show profits only marginally lower than last time's £37.6m, eased 4 to 244p.

The market gave a good reception to General Accident's third quarter numbers which were accompanied by a relatively confident statement on the current outlook. General Accident shares ran up 14 to 550p.

FT-A All-Share Index

Equity Shares Traded

Turnover by volume (million). Excluding: intra-market business & Overseas turnover



The oil majors were in the forefront of the market's advance, responding to the further strength in the dollar, a rally in the oil price and suggestions that OPEC make take steps to reign in production when it holds its next meeting at the end of the month. BP raced up 8¼ to 286½p on turnover of 6.6m while Shell jumped 9 to 539p on 4.2m traded, in front of tomorrow's third quarter figures. There was also aggressive switching from Royal Dutch into Shell.

Calor dipped 5 more to 229p after the company confirmed that SHV, the Dutch investment company, had been behind the recent buying and lifted its stake to 47.26 per cent, or 79.5m shares.

A stronger dollar helped some US earners. Reuters Holdings rose 15 to 1253p with Goldman Sachs said to be recommending the stock. Glaxo gained 11 to 821p even though it was announced that the US holding has dropped to 23.8 per cent, down around a percentage point over the past two months. SmithKline Beecham rose 4¼ to 517p in the 'A's but Wellcome stood out with US sellers forcing the stock down 8 to 987p.

ICI retreated from a day's high of 1058p to close 9 up on balance at 1048p after US investment house Paine Webber downgraded its rating on the company to neutral from attractive. Analyst Mr Andrew Cash said that while the weaker pound might help dollar earnings it was "clobbering the ADR price". He added that he was worried about Europe and has cut his 1992 earnings per ADR forecast for the company to $3.10 from $3.40.

Industrial gases group BOC fell 11 to 703p, with Lehman Brothers selling the stock ahead of results.

In a buoyant food retail sector, Asda was the biggest volume stock of the day as nearly 50m were traded, the price edging forward 2½ to 47½p. An agency cross of 6.1m was recorded, the shares apparently bought at 46½p and placed at 47p.

Dealers said that the impetus for the continued heavy turnover – yesterday's was the largest in nearly a year – came from institutions which had taken up shares in the rights issue last year at 35p and were now taking profits. However, Asda's rehabilitation as a recovery stock meant that new buyers were available to produce two-way business.

Heavy turnover was also seen in Tesco, with 15m shares traded. Staff share options, thought to be up to 17m, could be excercised by Christmas. The stock rose 3 to 226½p.

Dixons moved ahead, encouraged by a profits upgrade from Smith New Court. The shares rose 11 to 236p.

Regional brewers were weak in early trading on an unconvincing rumour that tomorrow's Autumn statement would contain some form of excise duty increase.

Shares in British Aerospace continued to be hurt by the sentiment from GPA and closed a penny lower at 134p, after trade of 2.1m. Market watchers however said further falls were retrained by reports that Germany is reconsidering its withdrawal from the European Fighter Aircraft (EFA). BAe is the UK's lead contractor on the project.

Confirmation from the chairman that car components manufacturer T&N would not be making a rights issue to fund its DM 250m acquisition of German company Goetze, announced yesterday, boosted the shares. Dealers saw the deal as an indication that fears over the dividend may have been overdone. The shares closed 7 up at 143p.

Pearson eased 5 to 348p on poorer than expected figures on sales of BSkyB satellite dishes. Granada, suffered for the same reason, the shares falling 8 to 275p.

A strong buy recommendation issued by Henderson Crosthwaite was behind the 3 rise in GEC, to 259p. Mr Brian Newman, electronics specialist at Henderson, said the 10 per cent-plus sterling devaluation has improved GEC's competitive p+osition more than investors realise. Henderson lifted its 1993/4 profits estimate by £30m to £950m.

MARKET REPORTERS:
Christopher Price,
Joel Kibazo, Peter John,
Steve Thompson.

■ Other market statistics, Page 22

NEW HIGHS AND LOWS FOR 1992

NEW HIGHS (180).
BRITISH FUNDS (17) Fd. 6pc '93, Tr. 9½pc '99, Ex. 12¼pc '99, Tr. 10pc '99, Cv. 10¼pc '99, Cv. 9pc '00, Tr. 13pc '00, Tr. 10pc '01, Tr 11½pc '01-04, Tr 5½pc '08-12, Tr. 7¾pc '12-15, Tr 2pc IL '94, Tr. 2½pc IL '01, Tr. 2½pc IL '03, Consls. 4pc, War Loan 3½pc, Consls. 2½pc, OTHER FIXED INTEREST (4) Asian Dev 10¼pc '09, B'ham 11½pc '12, Leeds 13½pc '06, M'chester 11½pc '07. AMERICANS (21) CANADIANS (1) Can. Pacific 4pc Db., BANKS (7) ABN, Bk. Scot. 9¼pc Pf., Do 9¾pc Pf., HSBC, HSBC (75p Shs), Lloyds, Standard Chard, BREWERS (2) Taunton Cider, Wiltshire, CONGLOMERATES (3) Amer Free A, Jardine, Wassall, CONTG & CONSTRCN (1) Westport, ELECTRICALS (2) Ericsson, Motorola, ELECTRICITY (1) Scot Power, ELECTRONICS (2) Elect'comps., Micro Focus, ENG GEN (3) Dickie, Halma, VSEL Cnsrtm, FOOD RETAILING (2) ASDA, Iceland, HEALTH & HSEHOLD (1) [illegible], INSCE BROKERS (2) Alex. & Alex., Marsh & McLennan, INSCE COMPOSITE (3) Amer. Gen., Amer Intl., GRE, INSCE LIFE (4) Britannic, Lincoln Natl., Torchmark, Transatlantic, INV TRUSTS (87) Abtrust New Dawn Wts., Abtrust Prfd. Zero Pf., Alliance Tst., Amer. Tst., Anglo & O'seas., BZW Conv., Broadgate, CST Emrg. Asia, City of Oxford Zero Pf., Drayton Asia, Do Wts., Drayton Blue Chip Zero Pf., Drayton Korea Wts., Dunedin Worldwide, EFM Dragon, First Philippine, Flmg. Amer., Do [illegible]

EQUITY FUTURES AND OPTIONS TRADING

A SQUEEZE in stock index futures helped to enliven an otherwise quiet day in the derivatives market, as dealers once again waited for news of interest rate cuts in tomorrow's Autumn Statement, writes Joel Kibazo.

The first trade in the December contract on the FT-SE was struck at 2,721, an opening stronger than anticipated. But that early strength proved temporary as December quickly went into reverse, falling to 2,713 by 9.15am, the session's low point.

A mid-morning rally soon turned into a squeeze sending the contract forward once again to recover ground surrendered earlier in the day.

With Wall Street said to have had no significant impact, December finished at 2,745, a 22-point improvement on Monday's close, and around 16 points above its estimated fair value premium to cash of 17.

The premium over fair value remained between 5 and 15 throughout the session. Turnover at 5,138 lots was again dull, though significantly up on the previous session.

Traded options were more lively and saw volume of 25,769, up from Monday's 17,563. The FT-SE 100 option traded 7,164 contracts and the Euro FT-SE 2,009 lots. Among the stock options, ASDA also busy in the equities, was once again the liveliest stock option trading 1,783 lots. The January 50 calls were the most active series.

FINANCIAL TIMES EQUITY INDICES

	Nov 10	Nov 9	Nov 6	Nov 5	Nov 4	Year ago	High	Low
Ordinary share	2016.5	1995.4	2005.4	2009.2	1990.7	[illegible]	2149.7	1670.8
Ord. div. yield	4.55	4.59	4.56	4.54	4.56	5.00	[illegible]	4.24
Earning yld % full	6.44	6.49	6.46	6.44	6.47	7.24	-	-
P/E ratio net	19.80	19.66	19.76	19.81	19.72	17.25	20.84	[illegible]
P/E ratio nil	18.30	18.17	18.25	18.31	18.23	16.41	-	-
Gold Mines	65.2	69.3	71.1	69.5	70.1	149.4	160.6	66.0

*for 1992 Ordinary share index since compilation: high 2149.7 22/5/92 - low 49.4 26/6/40. Gold Mines Index since compilation high: 734.7 15/2/83 - low 43.5 26/10/71. Basis Ordinary share 1/7/35; Gold Mines 12/9/55.

Ordinary Share hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
1996.1	1994.1	2001.9	2008.9	2012.6	2015.0	2017.3	2018.0	2014.4	2018.0	1992.1

Volume	Nov 10	Nov 9	Nov 6	Nov 5	Nov 4	Year ago
SEAQ Bargains	27,433	27,036	27,278	24,596	25,818	23,972
Equity Turnover(£m)†	-	1134.1	1235.3	1315.4	1152.0	875.3
Equity Bargains†	-	30,484	31,391	28,835	28,127	23,625
Shares traded (ml)†	-	508.0	530.6	397.9	447.3	387.0

† Excluding intra-market business and overseas turnover.

London report and latest Share Index
Tel. 0891 123001. Calls charged at 36p/minute cheap rate, 48p at all other times.

FT-SE Actuaries Share Indices — THE UK SERIES

FT-SE 100	FT-SE MID 250	FT-A ALL-SHARE
2714.6 +19.2	2593.3 +12.9	1284.89 +8.45

	Nov 10	Nov 9	Nov 6	Nov 5	Nov 4	Year ago	1992 High	1992 Low	Since compilation High	Since compilation Low
FT-SE 100	2714.6	2695.4	2702.7	2711.1	2691.7	2548.5	2737.8	2281.0	2737.6 11/5/92	986.9 23/7/84
FT-SE Mid 250	2593.3	2580.4	2579.9	2572.2	2560.7	2517.3	2825.0	2157.8	2825.0 20/5/92	1379.4 21/1/86
FT-SE-A 350	1310.5	1301.7	1304.4	1307.0	1298.3	1238.3	1342.7	1103.1	1342.7 11/5/92	664.5 14/1/86

Gross dividend yield (ACT at 25%) FT-SE 100 4.44 %

FT-Actuaries All-Share

EQUITY GROUPS & SUB-SECTIONS — Tuesday November 10 1992. Figures in parentheses show number of stocks per section.

FT-SE Actuaries 350 Industry Baskets

Construction, Health & H, Water, Banks.

Additional information on the FT-SE Actuaries Share Indices is published in Saturday issues. © The Financial Times Limited 1992. All rights reserved.

LONDON SHARE SERVICE

BRITISH FUNDS

LONDON SHARE SERVICE

AMERICANS

Notes	Price £	+ or -	1992 high	low	Mkt Cap£m	Yld Gr's
Abbott Labs h	18⅝xd	+⅛	19⅝	14⅝	15,719	2.0
♥Allegheny & W	454p	+14	454p	226p	236.5	4.2
Amdahl	539p	—	1155p	455p	665.3	1.2
Amer Cyanamid	35½	-1⅛	37⅝	28⅝	3,299	2.8
Amer Express	13¹³⁄₁₆xd	+⅛	13⅞	10¼	6,646	4.6
Amer T & T	29⅝xd	+⅛	29⅝	20⅛	39,398	2.8
Ameritech	42¼	+⅜	43½	32½	15,498	5.2
BankAmerica	28⅜xd	+⅛	28⅜	19⅛	9,776	2.9
Bankers NY	43⅝xd	+⅝	43⅝	28⅞	3,481	4.1
Bell Atlantic	28½	—	31⅛	23⅛	12,736	5.8
BellSouth	31⅝	-⅛	34⅛	25	15,622	5.5
♥Bethlehem Steel	8⁹⁄₁₆xd	—	9⅝	5⅛	698.6	-
Bowater	1292pxd	+46	1579p	905p	503.2	5.4
CPC h	33xd	+⅞	33	22⅜	4,958	2.3
♥Cadiz Land Inc	129p	—	342p	108p	-	-
California Engy	940p	+16	940p	591p	171.1	-
Chase Manhattan	16⅛xd	+⅛	16½	9⅛	2,445	4.6
Chrysler	17⅞xd	+⅛	17⅞	6¼	5,172	2.1
Citicorp	11⅝xd	+⅛	11⅝	5⅜	4,228	-
Colgate-Palm	38¼xd	+1	38½	25¼	6,897	2.0
Cont'l Bank	1202p	+29	1202p	499p	1,214	3.1
Dana	28⁹⁄₁₆xd	+⅛	28⅞	14⅞	1,315	3.5
Data General	660p	—	1804p	384p	182.1	-
♥Decora Inds	146p	—	146p	65p	-	-
Dun & Brad	38⅛	+⅝	38⅛	27⅜	6,882	3.6
Eaton	48¼	+⅝	48¼	32½	1,866	2.9
Echlin	13⅛xd	+⅛	13⅛	7⅜	751.2	3.4
FPL	23¾xd	+½	23¾	17⅞	4,290	6.6
Fluor	29⅝xd	+¼	29⅝	19¾	2,462	0.9
Ford Motor	25⅞xd	+⅛	26⅛	15	12,584	2.4
Gen Elect	51⅝xd	+1	51⅝	36¾	44,189	2.9
♥General Host	606p	-7	699p	360p	-	3.8
Gillette	39⅞xd	+1⅛	39⅞	23⅞	8,788	1.1
Hasbro	21½	+⅜	22	12⅜	1,867	0.6
Honeywell	42⅝	+1⅞	43	32	2,951	2.4
Houston Inds	28⅞	-⅝	29½	22	3,739	6.5
IBM	44⅝xd	+1⅞	54½	41⅞	25,400	6.8
Ingersoll-Rand	21	+⅞	21	12⅞	2,178	2.1
Lockheed	30¾	+½	38¾	22⅜	1,886	4.3
Lowe's h	1309p	-19	1329p	815½p	955.8	1.3
Merrill Lynch	38⅛xd	+⅞	39⅞	24⅜	3,930	2.0
Morgan (JP)	42½xd	+1⅛	42½	28⅞	8,114	3.2
Morris (Philip)	50⅞xd	+⅛	51	37⅞	46,854	2.1
NYNEX	51⅛	—	44⅛	39⅝	10,627	6.6
Pall	20	+⅛	20	10⅜	1,734	1.1
Pennzoil	36⅛xd	+⅞	36⅞	23⅛	1,466	5.2
Quaker Oats	44¼xd	+⅞	44¼	28	3,248	2.7
Rockwell	17⅛xd	+½	17⅛	11½	3,815	3.4
Rep NY	29¾xd	+⅛	29¾	20⅞	1,547	2.1
Sears, Roebuck	29⅛xd	+½	28⅜	19⅞	9,787	4.4
Sthwestern Bell	42	—	43⅞	31⅜	12,692	4.4
Sun Co	16⅞xd	+⅞	16⅞	12⅜	1,744	7.0
Tenneco	29⅛xd	+⅞	25⅞	16½	2,896	4.4
Texaco	39½xd	+⅛	39⅞	30⅞	10,219	5.1
Time Warner h	17⅛	+⅛	17⅛	11½	6,354	1.0
♥Unifab	324p	—	687p	320p	301.8	-
♣URS Intl. 1c	8¼p	—	1¼p	0¼p	2.71	-
US West	23⅝	+⅛	24⅝	18¾	9,684	6.7
Varity	1318p	+6	1855p	632p	331.9	-
Waste Manage	20⅞xd	+⅛	28⅞	16⅞	13,288	1.2
Whirlpool	2590pxd	—	2799p	1768p	1,789	2.7
♥Woolworth	21⅞	-⅛	22⅛	13⅜	2,872	3.2

CANADIANS

BANKS

BREWERS & DISTILLERS

BUILDING MATERIALS

BUILDING MATERIALS - Cont.

BUSINESS SERVICES

CHEMICALS

CONGLOMERATES

CONTRACTING & CONSTRUCTION

CONTRACTING & CONSTRUCTION - Cont.

ELECTRICALS

ELECTRICITY

ELECTRONICS

ENGINEERING - AEROSPACE

ENGINEERING - GENERAL

ENGINEERING - GENERAL - Cont.

FOOD MANUFACTURING

FOOD RETAILING

HEALTH & HOUSEHOLD

HOTELS & LEISURE

HOTELS & LEISURE - Cont.

INSURANCE BROKERS

INSURANCE COMPOSITE

INSURANCE LIFE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

	Notes	Price	+ or -	1992 High	1992 low	Yld Gr's	NAV	Dis or Pm(-)
Scottish Inv	♣†	182	+2½	182	147	3.2	212.8	14.5
Warrants		31	+½	38	21	–	–	–
Scot Mortgage	♣†	173xd	+3	173	135	[illegible]	[illegible]	13.8
Scot National Inc	♣	88½	—	107	65¾	18.2	–	–
Cap		18	—	42	12½	–	28.3	36.5
Stepped Pf		154½	+½	154¾	128	8.2	–	–
Zero Div Pf		189½	+1½	189½	168½	–	–	–
Warrants		5	—	9	3	–	–	–
Scot Value	†a	64	—	64	48	[illegible]	[illegible]	4.3
Sec Alliance	♣	1323	+12	1323	1066	3.7	1507.2	12.4
Second Market	§	286	—	286	222	4.8	303.1	16.0
Sec Tst Scot	♣	70¾xd	+½	76½	61	6.1	77.4	8.9
Select Assets		103	+1	103	79½	1.1	151.7	32.1
Eq Ind Ser1		121	—	123	108	4.7	–	–
Eq Ind Ser2		121	—	123	106	4.7	–	–
SHIRESCOT		98	—	99	96	–	100.0	2.0
Shires	♣	213	+1	240	185	11.5	219.6	3.2
11pc Cv Ln '03/04		£118	+8	£118½	£95½	10.8	–	–
Siam Select		100	—	101	68	[illegible]	[illegible]	29.7
Warrants		18	+1	21	10	–	–	–
Smaller Cos		66	—	85	68	5.1	77.5	15.4
Warrants		13	—	20	10	–	–	–
Somerset Tst		114	—	140	55	–	88.2	-29.2
Sphere Inc	N	12xd	—	28	9½	31.8	23.6	47.3
Zero Div Pf		76¼	—	77¾	63¾	–	–	–
Suprt		35	—	55	30	4.8	93.5	62.6
TR City of Lon		118	+½	127½	97½	5.4	118.0	0.4
TR Euro Growth		76	—	90	70	2.4	99.4	23.6
Pfg Sub		38	—	54	33	6.5	–	–
TR Far East Inc		115	+1	115	78	[illegible]	[illegible]	9.3
Warrants		19	+1	22	12	–	–	–
TR High Inc		107	+1	118	91	[illegible]	[illegible]	-1.3
Sub	♀	22	—	35	21	9.1	–	–
TR Pacific	§	102	+1	108	70	0.3	117.9	13.5
TR Prop		17¼	—	27	14½	11.2	28.8	39.6
TR Smaller		121	+1	152	98	4.1	142.2	14.9
TR Technology		30	+1	37	18	7.8	150.0	80.7
Stepped Pf		98¾	—	102¼	89¾	7.6	–	–

INVESTMENT COMPANIES

MEDIA

MEDIA - Cont.

MERCHANT BANKS

METALS & METAL FORMING

MISCELLANEOUS

MOTORS

OIL & GAS

OIL & GAS - Cont.

OTHER FINANCIAL

OTHER INDUSTRIALS

PACKAGING, PAPER & PRINTING

PACKAGING, PAPER & PRINTING - Cont.

PROPERTY

STORES

STORES - Cont.

TELEPHONE NETWORKS

TEXTILES

TRANSPORT

WATER

SOUTH AFRICANS

PLANTATIONS

MINES

MINES - Cont.

GUIDE TO LONDON SHARE SERVICE

payment. I Indicated dividend yield, p/e ratio based on latest annual earnings. ø Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings.

Yield based on prospectus or other official estimates for 1992-93. L Estimated annualised yield, p/e based on latest annual earnings. M Yield based on prospectus or other

Z Dividend yield to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xc ex capital distribution.

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FT MANAGED FUNDS SERVICE

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AUTHORISED UNIT TRUSTS

[illegible]

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: [illegible]

HISTORIC PRICING: [illegible]

FORWARD PRICING: [illegible]

SCHEME PARTICULARS AND REPORTS: [illegible]

[illegible]

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FT MANAGED FUNDS SERVICE

• Current Unit Trust prices are available from FT Cityline. For further details call (071) 925 2128.

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Saunders (Albert E.) & Co (1000)F						
Admin: 5 Rayleigh Rd Hutton, Brentwood Essex						
Enquiries: 0277 227300 Dealing: 0277 261010						
Int'l Bond & Conv	5	116.80	117.10	123.30	+1.20	6.16
Pooled Pension	3¼	137.5	142.0	146.9	....	-
Smaller Cos	5	49.93	51.75	54.47	-0.08	2.59
UK General	5	109.50	111.20	117.00	-0.18	2.80
Sheppards Unit Trust Mngmt Ltd (1200)F						
1 White Hart Yard, London Bridge SE1 071 407 5966						
Income	5	353.16	353.16	374.35	+3.04	5.5
Global Inc	5	50.42	50.42	53.44	+0.4	4.50
Brit Leaders	5	298.59	298.59	316.5	+0.42	3.22
Intl Leaders	5	164.67	164.67	174.55	+1.05	1.88
Pan Man Bal Gwth Acc	3¼	47.94	48.74	50.64	+0.03	4.22
Pan Man Bal Gwth Inc	3¼	47.94	48.74	50.64	+0.03	4.22
Singer & Friedlander UT Mgmt Ltd (1000)F						
PO Box 224, Beckenham, BR3 4TF 081-663 3003						
Smaller Cos	5	110.2	114.6	122.0	+0.5	3.07
Smith & Williamson Unit Tst Mgrs (1600)F						
1 Riding House St, London W1A 3AS. 071-637 5377						
S & W American	5	255.2	255.8	270.6	+2.0	0.98
S & W Capital	5	106.1	106.1	113.6	+0.3	1.90
S & W Cash	0	101.03	101.03	101.03	+0.05	7.91
S & W European	5	104.9	105.1	111.2	+1.8	2.54
S & W Far Eastern	5	109.4	110.3	116.7	-0.8	0.00
S & W Growth	5	113.6	114.8	121.4	+0.1	1.49
S & W Income	5	97.39	98.66	104.4	+0.2	5.75
S & W Magnum	5	112.5	112.5	120.7	+0.4	1.85
S & W Smllr Secs	5	245.4	250.9	265.5	+1.1	0.96
S & W Thoroughbred	5	129.3	129.3	138.6	+0.3	1.86
Societe Generale Touche Remnant (1600)F						
Mermaid Hse 2 Puddle Dock, EC4V 3AT 071-248 1250						
4 Hourly Pricing—12 Noon Historic						
American Gwth	5¼	72.45	72.45	77.48	+1.10	0

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Whittingdale Unit Tst Mgmt Ltd (0830)F						
2 Honey Lane, London EC2V 8BT 071-600 0462						
Challenger	2½	89.07	89.07	91.15	+0.08	0.00
Short Dtd Gilt	1½	107.6	107.6	109.0	-0.1	1.93
U.S. Govmt Bond	1½	0.6991	0.6991	0.7082	-0.001	0.00
Gilt Income	4	51.94	51.94	54.05	-0.08	[illegible]
Gilt Growth	4	64.02	64.02	66.64	-0.01	0.00
City Reserve	0	55.05	55.05	55.05	+0.01	8.8
Woolwich Unit Trust Managers Ltd (1700)H						
1 White Oak Square, Swanley BR8 7AG 0705 [illegible]						
Stockmarket Fd F	5	59.45	59.63	63.43	+0.36	2.60

OTHER UK UNIT TRUSTS

	Bid Price	Offer Price	+ or -	Yield Gross
Baillie Gifford & Co Ltd				
Int'l Exmpt Oct 28	636.5	658.2	..	1.06
James Capel Fund Managers Ltd				
Managed Exempt	119.261	125.057	+0.653	4.28
Cent. Bd. of Fin. of Church of England‡‡				
2 Fore Street, London EC2Y 5AQ 071-588 1815				
Inv Fund Oct 31	544.70	548.30	..	5.40
Fxd Int Sec Oct 31	151.40	152.10	...	9.53
Deposit Fund: See Money Market Trust Funds.				
Charinco/Charishare‡‡ (1000)F				
33 King William Street, EC4R 9AS 071-280 2800				
Charinco Inc	176.9	178.9	+0.10	9.17
Charinco Acc	2012.0	2024.0	..	9.17
Charishare Inc	174.5	178.4	+0.50	4.48

INSURANCES

Continued on next page

FT MANAGED FUNDS SERVICE

• Current Unit Trust prices are available from FT Cityline. For further details call (071) 925 2128.

Prolific Life & Pensions Ltd

Stramongate, Kendall, Cumbria LA9 4UB 0539 733733

• Managed Fund see Balanced Growth Managed Fund

	Bid Price	Offer Price	+ or −	Yield Gross
Life Funds				
Balanced Grth Mngd	614.6	653.9	−0.6	−
Adventurous Mngd	149.3	158.9	+1.7	−
Cautious Mngd	118.8	126.4	+0.3	−
Cash Fd	313.1	330.0	..	−
Property Fund	217.5	231.4	+0.4	−
Equity Fund	709.6	754.9	+6.8	−
Fxd Int. Fund	389.1	410.1	+1.1	−
[illegible]	320.8	341.3	+2.8	−
[illegible]	529.4	563.2	−2.2	−
Far East	431.8	459.4	+1.7	−
North American	411.8	438.1	+7.9	−
Special Sits	489.0	520.3	−2.4	−
Technology	407.5	433.6	+9.7	−
Extra Inc Fd	288.1	306.5	−1.4	−
Convertible & Gilt Fd	140.5	149.5	+0.3	−
American Income	168.0	178.8	+2.2	−
Gilt Fund 20	441.2	469.4	+1.8	−
European Fund	113.1	120.4	+0.9	−
Pref & Fixed Int	105.4	112.2	+0.2	−
UK Blue Chip	110.1	116.1		−
Recovery Fund	100.9	106.4	+0.3	−
Equity Income Dist	97.8	104.1	+0.6	5.02
Managed Dist	94.0	100.1	+0.4	9.31
High Yield Dist	99.9	105.3	..	7.71
Pension Funds				
Balncd Gth Mngd Pens Acc	708.2	745.5	+3.4	−
Adventurous Mngd Pens Acc	155.2	163.4	+1.6	−
Cautious Mngd Pens Acc	135.6	142.8	+0.4	−
Building Soc. Acc	360.0	379.0	..	−
Property Pens. Acc	295.3	310.9	+0.5	−
Fix Int. Pens. Acc	613.7	646.1	+0.9	−
Equity Pens. Acc	899.8	947.2	+9.2	−
International Pens Acc	296.0	311.6	+2.9	−
High Inc Pens Acc	590.8	621.9	+0.9	−

Reliance Mutual

Reliance House, Tunbridge Wells, Kent 0892 510033

	Bid Price	Offer Price	+ or −	Yield Gross
Deposit Acc Fd	166.3	175.1		−
Equity Acc Fd	377.9	397.8	+0.8	−
Managed Acc Fd	334.0	351.6		−
Prop Fd (1st Issue)	−	944.5		−
Prop Acc Fd (2nd Iss)	120.6	127.0		−
Unit Trust Mn. Fd	149.7	157.6		−
RL Pension Funds				
Deposit Acc	240.8	253.4		−
Equity Acc	276.4	290.9	+4.8	−
Fixed Int Acc	244.1	256.9		−
Gilt Indx Lnk Acc	185.7	195.5		−
Managed Acc	365.4	384.6		−

J Rothschild Assurance PLC

J Rothschild House, Dollar Street, Cirencester

Telephone: 0285 640302 Helpline: 041 307 6500

	Bid Price	Offer Price	+ or −	Yield Gross
Life Funds				
JRA/M&G Managed	107.8	113.5	+0.30	−
JRA/Scottish Amicable Mngd	101.6	107.0	−0.20	−
JRA/St James's Place Mngd	111.1	117.0	+0.80	−
Deposit	99.10	104.4	+0.10	−
Far East	115.1	121.2	+0.30	−
Gilts	105.5	111.1	+0.40	−
Greater European	108.3	114.1	+0.50	−
North American	121.3	127.7	+2.00	−
UK Equity	104.7	110.3	−0.30	−
Pension Funds				
JRA/M&G Managed cap	105.3	110.9	+0.20	−
JRA/M&G Managed acc	108.3	114.0	+0.20	−
JRA/Scottish Amicable Mngd cap	98.10	103.3	−0.40	−
JRA/Scottish Amicable Mngd acc	100.9	106.3	−0.30	−

MANAGEMENT SERVICES

OFFSHORE INSURANCES

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)

FT MANAGED FUNDS SERVICE

• Current Unit Trust prices are available from FT Cityline. For further details call (071) 925 2128.

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

MANAGED FUNDS NOTES

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Dollar dealers wait for news

THE DOLLAR yesterday regained some of the ground lost against the D-Mark at the start of the week, but failed to break through the level of DM1.60, *writes James Blitz.*

There is an air of "wait and see" in dollar/D-Mark trading at the moment. The US currency rose more than 5 pfennigs last week in the wake of the Presidential election, but some dealers wonder whether the rise was overdone. Yesterday the currency ranged between DM1.5907 and DM1.5991 before closing ¾ pfennig up on the day at DM1.5960. The dollar finished New York trading easier at DM1.5913.

Last week's advance for the dollar reflected expectations that Germany will ease monetary policy as it slides into recession, and that President-elect Bill Clinton will fiscally boost the economy.

Those expectations must be fulfilled if the dollar is to appreciate from here. Mr Avinash Persaud, a currency economist at UBS Phillips & Drew in London, said: "The dollar is like a dragon with an insatiable appetite at the moment. It needs news to drive it further."

News on the German front is not likely to be dollar-positive this week. Nobody expects an easing in official rates at the Bundesbank council meeting tomorrow, and some even expect a net drain of funds in today's German money market operations, pushing cash rates higher.

Attention is increasingly focusing on possible candidates for the economic posts in Mr Clinton's administration.

It is generally thought that the dollar will see a strong break through DM1.60 if Mr Paul Volcker, former chairman of the US Federal Reserve, is nominated as Treasury Secretary. His reputation for raising interest rates to counterbalance the US deficits in the 1980s would help the dollar upwards.

However, Mr Persaud believes that the other named candidates, including Mr Roger Altman and Mr Robert Rubin, would also be positive for the US currency.

Inside the European exchange rate mechanism, the French franc continued to gain ground. Yesterday it appreciated ½ franc against the D-Mark to finish at FFr3.3760. Some dealers believe it is slowly moving towards its central ERM parity against the D-Mark of FFr3.3539.

Analysts of the ERM are considering how quickly the core currencies of the system could move towards forming a unified currency in Europe.

For the first time since the autumn currency crisis, all the potential hard-core currencies in the ERM – the D-Mark, French franc, Belgian franc, Dutch guilder and Danish krone – were yesterday above their central Ecu rates.

These currencies could continue to move in a uniform pattern next year. Attention may focus on whether the hard core can move from the permitted fluctuation bands of 2.25 per cent to narrower bands of 1 per cent or even 0.2 per cent.

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu Central Rates	Currency Amounts Against Ecu Nov 10	% Change from Central Rate	% Spread vs Weakest Currency	Divergence Indicator
Belgian Franc	41.9547	40.4853	-3.50	4.79	47
Dutch Guilder	2.29193	2.21505	-3.35	4.63	41
D-Mark	2.03412	1.96894	-3.21	4.48	44
Danish Krone	7.75901	7.54651	-2.74	3.97	10
French Franc	6.82216	6.64800	-2.55	3.77	1
Irish Punt	0.759300	0.742916	-2.16	3.35	-17
Portuguese Escudo	178.844	175.194	-0.93	2.08	-6
Spanish Peseta	139.176	140.739	1.12	0.00	-40

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.
(17/9) Sterling and Italian Lira suspended from ERM. Adjustment calculated by Financial Times.

£ IN NEW YORK

Nov.10	Close	Previous Close
£ Spot	1.5155-1.5165	1.5100 1.5110
1 month	0.55-0.54pm	0.55 0.54pm
3 months	1.23-1.20pm	1.24 1.21pm
12 months	3.15-3.05pm	3.27 3.18pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

[illegible]

CURRENCY RATES

[illegible]

CURRENCY MOVEMENTS

[illegible]

OTHER CURRENCIES

[illegible]

POUND SPOT - FORWARD AGAINST THE POUND

[illegible]

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

[illegible]

EURO-CURRENCY INTEREST RATES

[illegible]

EXCHANGE CROSS RATES

[illegible]

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100: Peseta per 100.

FINANCIAL FUTURES AND OPTIONS

[illegible]

BASE LENDING RATES

[illegible]

● Members of British Merchant Banking & Securities Houses Association.

MONEY MARKETS

Revised view on rates

DEALERS in the sterling cash market remained firmly convinced yesterday that there would be a base rate cut before the end of the week, but the view that it would be in the order of 200 basis points seemed to be losing its adherents, *writes James Blitz.*

A cautious correction in the sterling markets was matched in German money markets, where the December Euromark futures contract fell back 10 basis points at one stage from its opening level.

Again the market remained convinced that there would be an official cut in rates, but the scale and timing remained in doubt.

UK clearing bank base lending rate 8 per cent from October 16, 1992

After considerable bullishness in sterling cash on Monday, the market appeared a good deal more tame yesterday. Six-month money, for example, had been down at 6¼ per cent at the start of yesterday's trading, but soon firmed back to 6¾ per cent. The December short sterling contract slipped 4 basis points to a close of 93.58. Three-month money remained unchanged at around 7 per cent.

Dealers were more biased towards a smaller rate reduction because of sterling's fall to a five-year low against the dollar on Monday afternoon.

A front page news story in the *Financial Times*, suggesting that Mr Norman Lamont had let it be known that he was not contemplating a 2 per cent rate cut, was also quoted by traders as a reason why views had been changed.

The cash market again suffered the liquidity problems that accompany expectations of an imminent rate cut. The Bank of England forecast a shortage of £1bn at the start of trading. Only £123m was removed in the early round and late assistance was high at £590m.

In the German market, the December short sterling contract dropped to a low of 91.42, later rising to a close of 91.45. This roughly assumes that three-month money will be at around 8.55 per cent by Christmas, some 30 basis points below current levels.

A commercial bank dealer said this probably priced in a drop in the discount rate, currently at 8.25 per cent, because there must be some margin between the lower posted rate and market rate.

In the Eurodollar market, a 0.1 per cent rise in the US producer price index helped to push the December contract up 1 basis point to 96.34 in the late European afternoon.

FT LONDON INTERBANK FIXING

[illegible]

MONEY RATES

[illegible]

LONDON MONEY RATES

[illegible]

MONEY MARKET FUNDS

Money Market Trust Funds

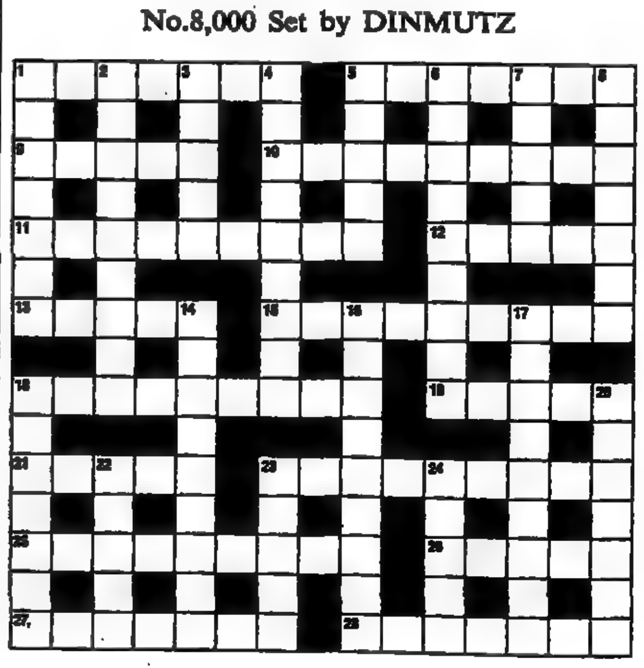
[illegible]

Money Market Bank Accounts

[illegible]

CROSSWORD

No.8,000 Set by DINMUTZ



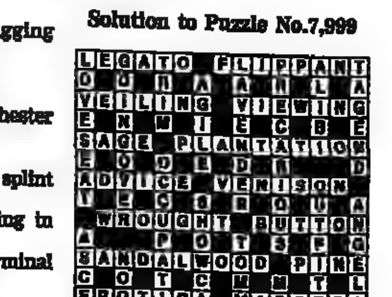
ACROSS

1 Joint top-of-the-bill died in the Big Apple, we hear (7)
5 Tummy-ache after half the buns in the country (7)
9 End of motorway illuminated all round (5)
10 Insect slack, possibly, around spine? (9)
11 City of fair maid in agony, very flimsy (5-4)
12 Country turnip (5)
13 Place to rest torso, perhaps (5)
15 Remove tackle from the shires? (9)
18 Unrestricted, circle coast (9)
19 Two runs to contain champion speedster? (5)
21 Courage, right in glacial snow (5)
23 Modern writer shot in front of heart (4-5)
25 Thing comes out dragging from dusk to dawn (9)
26 Coach in a column (5)
27 General mess of wax (7)
28 Stand for people in Chester racecourse (7)

DOWN

1 New replica of type of splint (7)
2 Signals from coast taking in English chart? (9)
3 Shift from Montreal terminal (5)
4 No cabin below? (4-5)
5 Essayist successfully brought home? (5)
6 One will not accept risks alone (9)
7 Old lord of Belgian city (5)
8 Visitors who demand a show of hands? (7)
14 Browning piece recited in Northants town (9)
16 Bluff royal on air-trip at dusk (4-5)
17 Dish left in tumbledown hacienda? (9)
18 Betrothed receives name for banking (7)
20 Escort of English leader can – in French street (7)
22 The Spanish support equipment to see bright star (5)
23 Pablo Kelly's inner man.... (5)
24 .... rock safe? (5)

Solution to Puzzle No.7,999



WORLD STOCK MARKETS

AUSTRIA | BELGIUM/LUXEMBOURG | DENMARK | FINLAND | FRANCE | GERMANY | NETHERLANDS | ITALY | NORWAY | SPAIN | SWEDEN | SWITZERLAND | SOUTH AFRICA | JAPAN | AUSTRALIA | HONG KONG | MALAYSIA | SINGAPORE

[illegible]

CANADA

TORONTO — 4 pm close November 10

MONTREAL — 4 pm close November 10

[illegible]

INDICES

NEW YORK — DOW JONES | STANDARD AND POOR'S

	Nov	Oct 30	Oct 23	year ago (approx.)
	Nov 6			
Dow Industrial Div. Yield	3.20	3.21	3.24	3.05

	Nov 4	Oct 28	Oct 21	year ago (approx.)
S & P Industrial div. yield	2.68	2.68	2.72	2.73
S & P Indl. P/E ratio	27.31	27.52	27.22	21.17

					1992 HIGH	1992 LOW	Since compilation HIGH	Since compilation LOW
NYSE Composite	230.66	230.63	230.09	230.37	233.73 (14/9)	217.92 (8/4)	233.73 (14/9/92)	4.46 (25/4/42)
Amex Mkt. Value	385.66	385.36	383.26	382.69	418.99 (12/2)	364.85 (9/10)	418.99 (12/2/92)	29.31 (9/12/72)
NASDAQ Composite	627.76	622.05	616.82	614.06	644.92 (12/2)	547.84 (26/6)	644.92 (12/2/92)	54.87 (31/10/72)

NEW YORK ACTIVE STOCKS

Tuesday	Stocks traded	Closing price	Change on day
Pacificorp	2,748,400	19¾	+ 1
Chicorp	2,343,400	10	+ ⅛
Merck	2,294,700	42⅜	+ ⅛
IBM	2,177,900	65⅜	- 1⅛
Diagnostek	2,140,800	10⅛	+ 1
Telefonos	2,023,800	52⅜	- ⅛
Limited	1,899,200	23⅝	- ⅜
Am Express	1,809,300	21½	+ ⅜
Walt Disney	1,733,400	41⅜	+ ⅞
Stor Tech	1,724,200	23½	- ⅛

TRADING ACTIVITY

† Volume Millions	Nov 10	Nov 9	Nov 6
New York SE	221.850	197.490	204.870
Amex	15.610	13.456	12.765
NASDAQ	(u)	245.428	229.153
NYSE			
Issues Traded	2,377	2,400	2,350
Rises	988	979	902
Falls	818	857	873
Unchanged	571	564	575
New Highs	101	95	82
New Lows	34	57	39

CANADA TORONTO

	Nov 10	Nov 9	Nov 6	Nov 5	1992 HIGH	1992 LOW
Metals & Minerals	2658.59	2684.85	2702.84	2727.68	3238.87 (16/1)	2603.82 (15/10)
Composite	3277.20	3293.76	3310.90	3339.76	3666.00 (16/1)	3195.40 (14/10)
MONTREAL Portfolio	1731.83	1740.80	1752.02	1770.50	1937.59 (16/1)	1663.16 (14/10)

Base values of all indices are 100 except NYSE All Common—50; Standard and Poor's—10; and Toronto Composite and Metals—1000. Toronto Indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds ‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable. § The DJ Indl. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's).

AUSTRALIA | AUSTRIA | BELGIUM | CANADA | DENMARK | FINLAND | FRANCE | GERMANY | HONG KONG | IRELAND | ITALY | JAPAN | MALAYSIA | NETHERLANDS | NORWAY | PHILIPPINES | SINGAPORE | SOUTH AFRICA | SOUTH KOREA | SPAIN | SWEDEN | SWITZERLAND | TAIWAN | THAILAND | WORLD

**Saturday November 7: Taiwan Weighted Price: 3,535.7. ‡ Subject to official recalculation.
Base values of all indices are 100 except: Austria Traded, BEL20, HEX Gen., MIB Gen., CAC40, Euro Top-100, ISEQ Overall and DAX—1,000, JSE Gold—255.7, JSE 20 Industrials—264.3 and Australia All Ordinary and Mining—500. (c) Closed. (u) Unavailable.

TOKYO - Most Active Stocks

Tuesday, November 10, 1992

	Stocks Traded	Closing Prices	Change on day
Green Cross	4.6m	1,330	+40
Aishin Seiki	3.9m	1,020	-30
Nomura Sec	3.0m	1,310	-10
Daiki Kogyo	2.8m	865	-15
Mitsubishi Hvy	2.1m	508	+3
Toshiba	1.8m	580	-1
Mitsui O&K	1.8m	347	-8
Shoko	1.7m	519	+12
NPN Steel	1.6m	281	+2
Kawasaki Steel	1.6m	283	+4

Price data supplied by Telekurs.

NOTES — Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. (u) unavailable. (§) Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

4 pm close November 10

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1992 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
15⅞	11	AAR Corp	0.48	4.0	19	331	12⅛	11⅞	12	-⅛
27⅛	18	A L Labs A	0.18	0.7	98	715	27⅛	26¾	27	+⅛
69¼	52⅝	AMP Inc x	1.52	2.3	24	2010	65⅝	64⅞	65½	+¾
80¼	54⅜	AMR				137300	65⅝	64½	65	-¾
2⅜	1⅛	ARX			15	174	2¼	2⅛	2¼	
53½	30¼	ASA	2.00	6.3	20	484	32	31½	31⅝	-¼
34¼	26⅛	Abbott Lab	0.60	2.1	19	9183	28⅛	27⅞	28¼	
13⅞	10⅜	Abitibi Pr	0.42	3.6	5	9	11¼	11⅛	11⅛	
11⅝	10⅞	ACM Gvt In x	1.01	9.4		431	11	10¾	10¾	-⅛
10⅞	9⅛	ACM OnOpp x	0.87	9.3		69	9½	9⅜	9⅜	-⅛
9¼	8½	ACM Gvt Sp x	0.78	8.9		255	8⅞	8¾	8⅞	+⅛
11⅛	10⅛	ACM Gvt Se	0.86	8.0		157	10¾	10⅝	10⅝	
10⅝	8⅝	ACM Man x	1.00	10.3		88	9¾	9⅝	9¾	+⅛
12⅞	9⅛	ACM Managd x	1.09	11.3		267	9¾	9⅝	9⅝	
11¾	4¼	Acme Cleve x	0.40	6.3	14	61	7⅝	7¼	7½	+⅛
6¼	3¼	Acme Elect			36	10	4⅝	4⅝	4⅝	+⅛
33¼	14⅛	Acuson			13	2451	17⅝	17⅛	17⅛	
20¼	18⅛	Adams Expr	0.48	2.4	1	38	u20¼	20¼	20¼	
49⅛	29½	Ad Micro	3.00	7.1		485	42⅛	42	42⅛	+⅛
21½	7½	Ad Micro P	3.00	18.8	55	912	16⅞	16	16	+⅛
9⅛	4⅞	Advest Grp	0.16	2.8	11	31	5⅝	5½	5⅝	+⅛
42¼	33	Aegon ADR	1.35	3.3	7	20	41⅝	41⅜	41½	-⅛
47	38	Aetna Lf	2.76	6.6	12	2098	43⅛	42⅝	42¾	
12¾	8¼	Ahli A x	0.24	2.2	14	773	11	10¾	11	+¼
34	24	Aflac x	0.44	1.5	13	1877	29½	29⅛	29½	+¼
19⅜	13	Ahmanson x	0.88	5.9	71	561	15	14⅞	14⅞	-¼

- A - - B - - C - - D - - E - - F - - G - - H - - I - - J - - K - - L - - M - - N - - O - - P - Q - - R - - S -

Continued on next page

هكذا أصل الأصل

NYSE COMPOSITE PRICES

Continued from previous page

1992 High	1992 Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
38¼	26¾	Salomoninc x	0.64	1.8	13	2263	36¼	35⅝	35¾	-⅜
25	21¼	SanDgo G&E	1.44	6.2	14	686	23⅝	23⅛	23⅜	-¼
4⅞	2⅜	SantaFeEDu x	0.40	10.0	86	30	4	3⅞	4	
9⅞	7	SantaFeERs x	0.16	1.9	50	237	8⅝	8½	8½	
39¼	30¾	SantaFePac	2.80	7.6	13	64	37⅛	36¾	36¾	-⅝
14⅛	10⅝	SantaFeSth x	0.10	0.8	33	4587	13⅜	12⅞	13¼	+¼
60⅛	48⅝	Sara Lee	1.16	2.0	23	2237	59⅛	58⅝	58¾	+¼
9½	1¼	Savin			0	4	1⅝	1½	1½	
44¼	38⅝	Scana Corp	2.68	6.6	13	1520	40⅞	40⅝	40⅝	-¼
47⅝	40¼	Scecorp	2.80	6.6	13	1916	43¼	42⅞	42¼	-½
68	49⅞	ScheringPl x	1.56	2.5	17	5864	62⅛	61½	62⅛	+⅞
70⅝	52¾	Sch'berger	1.20	1.9	18	4434	63¼	63¼	63½	+⅜
37¼	16⅝	Schwab(C)	0.24	1.0	12	1270	23⅛	22¾	23⅜	+½
10⅝	4½	Schwitzer			56	25	6⅛	5⅞	6¼	-⅛
31	15¼	ScientAtln	0.16	0.5	36	1693	u32	31	31¾	+1
10⅝	7⅞	Scotsman x	0.10	1.1	76	15	9¼	9⅛	9⅛	-⅛
46	34½	ScottPaper	0.80	2.1	76	441	38⅛	37⅛	37⅞	-1
17½	13½	ScuddrNAsF	0.22	1.5		30	15	14¾	14¾	
9¼	8⅛	ScuddrNEuF	0.30	3.6		161	8¼	d8	8	-⅛
24	13	Sea Contrs x	0.45	3.4	7	36	13⅜	13⅛	13¼	-⅛
15¾	14⅞	SeaC1.4625	1.46	9.6		4	15¼	15¼	15¼	
[illegible]										

1992 High	1992 Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
10⅛	8¼	TempltGlob	0.80	9.8		219	[illegible]			
9⅞	8½	TempltGlFd x	0.84	9.6		666	[illegible]			
46	31¼	Tennecoinc	1.60	4.5	34	2258	[illegible]			
23⅞	19½	Teppco Pts	2.20	10.2	16	105	[illegible]			
20⅝	10	Teradyne			19	282	[illegible]			
18½	8⅝	Terex	0.08	0.6	3	271	[illegible]			
5⅞	4½	Terra Inds			9	730	[illegible]			
6⅝	2½	Tesoro Pet			1	528	[illegible]			
68⅞	56¼	Texaco	3.20	5.3	16	5069	[illegible]			
54½	52	Texaco C	3.75	7.1		z100	[illegible]			
25⅛	19⅛	Texas Ind	0.20	0.9	46	8	[illegible]			
51⅛	30	Texas Inst	0.72	1.4	10	8297	[illegible]			
23¼	17	Texas Pac	0.40	2.3	31	101	[illegible]			
43⅞	37	Texas Util	3.04	7.3	12	4320	[illegible]			
10¾	9⅞	Textl Pf	1.10	10.6		5	[illegible]			
9¼	4⅞	Textl Inds	1.10	15.7	7	142	[illegible]			
39⅞	33⅝	Textron	1.12	2.9	10	862	[illegible]			
6⅛	4⅛	Thackeray			23	20	[illegible]			
11½	7½	Thai Cap	0.25	2.3		123	[illegible]			
19⅝	13¾	Thai Fund	2.72	14.1		227	[illegible]			
[illegible]										

- T -

[illegible]

- U -

[illegible]

- V -

[illegible]

- W -

[illegible]

- X - Y - Z -

1992 High	1992 Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
82¼	65½	Xerox	3.00	4.0	17	2024	75⅞	74¾	75⅛	+⅛
55	50½	Xerox4.125				5	54	54	53	
34½	24⅞	Xtra 1.94	1.94	5.7		23	34	33⅜	33¾	-⅛
47½	28½	Xtra Corp	0.80	1.7	14	69	47⅛	46¾	47	+⅛
30⅝	25⅛	Yankee Egy	1.65	6.0	12	66	28	27½	27½	-⅛
1½	½	Zapata			25	583	1	15/16	15/16	-1/16
11⅛	5	ZenithElec				21041	7	6¾	6⅞	+⅛
19½	14½	Zenith Nat	1.00	5.8	9	69	17⅛	16⅞	17⅛	+⅛
7½	6	Zenix Inc	0.83	12.5		141	6⅞	6½	6⅝	+⅛
13⅞	10	Zero Corp x	0.40	3.0	20	66	13⅜	13⅛	13⅜	
38	27⅞	Zurn Ind x	0.88	2.5	39	314	35⅛	34⅝	34⅞	-¼
14⅛	12	Zweig Fund	1.12	8.8		122	12⅞	12¾	12¾	-⅛
11	9½	Zweig Tot x	0.95	9.7		600	10	9⅞	9⅞	+⅛

Price data supplied by Telekurs.

Yearly highs and lows reflect the period from Jan 1, excluding the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

4 pm close November 10

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
Oilston	0.32	27	607	33	32⅞	33	+⅛
Pegasus G	0.10	28	3462	14⅞	13¾	13⅞	-1
Perini	0.80	15	235	15⅛	15	15⅛	-⅛
Pet HIAP	1.14	12	2	15½	15⅞	15⅜	
PHI LD	0.28	16	128	38⅛	38¼	38½	
Pittway A	1.10	17	17	31½	31¼	31½	+⅛
Ply Gem x	0.12	20	29	10	9¾	10	
[illegible]							

NASDAQ NATIONAL MARKET

4 pm close November 10

[illegible]

AMERICA

Blue chips encounter another late sell-off

Wall Street

FOR THE second consecutive day, blue chip stocks ran into a late sell-off yesterday as the broader market more than held its ground, *writes Patrick Harverson in New York.*

The Dow Jones Industrial Average was finally down 15.40 at 3,225.47, with the bulk of the loss incurred in the final 30 minutes of trading. Secondary indices fared better. The more broadly based Standard & Poor's 500 ended 0.02 up at 418.61 and the Nasdaq composite continued to outperform, rising 5.70 to 627.75 amid continued strong demand for technology stocks.

New York SE turnover was heavy at 223m shares, and rises outpaced declines by 982 to 817.

The day's economic news appeared positive for both equities and bonds. The index of producer prices (PPI) rose 0.1 per cent in October (it actually fell 0.1 per cent when the traditionally volatile food and energy components were excluded). The market had been expecting a rise in the PPI of about 0.3 per cent, and the figures sparked a rally in bond prices, lowering long-term market interest rates in the process.

The positive inflation news, however, failed to boost sentiment on stock markets. Analysts said that with the Presidential election out of the way, investors were looking to economic and corporate earnings fundamentals and the PPI figures were not good enough on their own to spark a rally.

Airlines, which have posted strong gains recently on the back of falling oil prices, came under selling pressure on reports that Saudi Arabia supports limiting the crude output of Opec member countries. AMR, parent of American Airlines, relinquished $¾ to $65 and Delta $⅛ to $58⅛, but UAL recouped an early decline to end steady at $126½.

Revco slipped $⅝ to $8 after the company, as part of a major refinancing, filed for a rights offering and an issue of new senior notes due in 1999.

Wal-Mart eased $⅛ to $62⅝, although it reported third-quarter profits of $438m, up sharply from the $353m earned a year ago. Other retailers reporting yesterday included J.C. Penney, down $¼ at $75¼ after a near 60 per cent improvement in profits, and The Limited, $⅝ off at $23⅝ after net income only slightly higher than a year earlier.

On the Nasdaq market, leading technology stocks remained firm, with Sun Microsystems adding $⅞ at $35⅞, Microsoft $1 at $92⅞ and Apple Computer $1 at $56⅛.

BUENOS AIRES saw a 7.3 per cent drop in the Merval index to 335.21 and weakness in the peso as banks scrambled to buy dollars to pay back deposits. Both fell last Friday on rumours that the economy minister, Mr Domingo Cavallo, was to quit, but recovered slightly on Monday after President Carlos Menem confirmed Mr Cavallo in his post.

Canada

THE PRICE of gold bullion and gold shares sank further, leaving the Toronto market with its sixth consecutive loss. The TSE 300 index fell 16.6 to 3,277.2 and declines led rises by 322 to 242 after a large volume of 40.6m shares. The golds sector index dropped 3.74 per cent.

Dublin's stockbrokers feel the pinch

Tim Coone explains the reasons for the poor performance of Irish equities this year

Ask an Irish stockbroker how business is these days, and you are likely to get an unprintable reply. Ask about his mortgage, and he is likely to burst into tears.

Anglo-Irish Bank closed down its Solomons stockbroking arm last month, probably the first in a series of rationalisations among stockbroking firms in Dublin in the coming year if business does not pick up. Projections made by numerous analysts at the beginning of the year of some 15 to 20 per cent growth in the ISEQ overall index during 1992 now look hopelessly optimistic.

In fact the ISEQ fell to 1,110 by last night, 20 per cent down since the end of 1991 and threatening its October 19, 1992 low of 1,094.88. This was its lowest since February 1988, a few months after the 1987 crash, and 43 per cent down from the peak of 1,905 in January 1990.

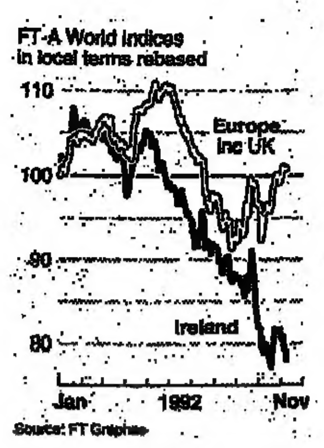
According to Mr Tom Healey, general manager of the stock exchange, equity turnover on the market is now at its lowest level in three years.

In fairness, a number of largely unforeseen circumstances have emerged this year.

The failure of the world economy to pull itself out of recession has had a major negative influence. Also, the anticipated easing of German interest rates did not materialise, and when sterling pulled out of the European exchange rate mechanism last September, Irish interest rates were forced up to record levels as the government struggled to maintain the punt's link to the D-Mark.

One key domestic factor has been a change in the taxation environment in the finance bill, earlier this year, which gave favourable tax treatment to interest earned on deposit and savings accounts at the expense of equity investments.

Mr Kevin Barry, head of research at NCB brokers in Dublin, says this has caused the flow of private funds into the unit-linked market to dry up, as savings have shifted



into bank deposits in anticipation of the changes, due to be introduced in January next year. As funds are being cashed in, fund managers are finding themselves forced sellers into an already underperforming market.

Mr Bertie Ahern, the finance minister, had promised to introduce a new finance bill by the end of the year to redress the imbalance, but that has now been postponed by the general election and its fate remains uncertain.

Davy Stockbrokers in Dublin believes that the year ahead will be tough. According to one of its analysts, the very high interest rates and the high exchange rate vis-a-vis sterling is putting pressure upon companies across the board.

The market has thus begun discounting the banks, whose core business is in the Irish market, as well as companies whose business is largely conducted in the UK such as Fyffes, whose earnings figures will be lower once converted into Irish pounds. The gloomy outlook for construction is affecting CRH.

An EC-US trade war would also affect the fast-growth companies in the food sector such as Kerry and Waterford Foods whose high-value food ingredients, and some downstream products, have been pinpointed as likely targets for punitive tariffs in the US. Waterford Crystal is also vulnerable. Thus virtually all of the major Irish stocks face difficulties on one front or another.

As if these factors were not enough to set the bears loose, there is GPA, the Irish-based aircraft leasing company, whose flotation plans failed in June this year, and which now appears to be facing serious financial difficulties. The main Irish financial institutions all have significant exposure to the company.

Mr Barry says: "In ordinary circumstances, the market would take the GPA problems in its stride, but it comes as a negative factor on top of five or six others."

There are flickers of optimism. Mr Mike Moroney, head of research at Goodbody stockbrokers in Dublin, comments: "At present levels Irish shares are very attractive, and if there is an unwinding of the negative factors over the coming months, there is a chance for rerating. The catalyst will be significantly lower German interest rates."

If this does not materialise, there may be more Irish brokers looking for jobs.

EUROPE

Milan in focus as strong dollar lifts bourses

THE RISING dollar gave bourses something to bite on, while privatisation fever kept its grip on Italian equities, *writes Our Markets Staff.*

FRANKFURT majored on continued dollar strength and today's results from Siemens as the DAX index ended 10.26 higher at 1,519.06 and Siemens DM7.10 better at DM561.50.

Turnover eased from DM4.3bn to DM4.2bn, Siemens's part in that rising from DM566m to DM932m. The electricals giant has had analytical support in recent weeks on its combination of steady sales progress, east German prospects and prospective high single-figure earnings growth.

But there have also been worries that the 1991-92 results could be marred by the setbacks that other big blue-chips have encountered this year. This week, however, the thought went out that the results could beat expectations and short-covering did the rest.

Dollar-sensitive winners included Metallgesellschaft, up DM13 at DM335 for a two-day gain of DM25, and BMW, DM6.50 higher at DM494.

In retailing, Karstadt rose DM7 to DM521 on media speculation that it might be a buyer for some of Woolworth's German operations, but Asko fell DM9 to DM504 after the cartel office said that it would block its planned merger with Metro.

MILAN ended sharply higher on continued interest in state-controlled companies earmarked for privatisation, so much so that Credito Italiano was halted from trading for excessive gains. The Comit index added 18.45 to 451.04 in turnover estimated at more than Monday's L161.7bn.

Credito finally settled L550 or 22.6 per cent higher at L2,980. The state telecommunications company, Stet, rose L105 or 6.9 per cent to L1,620 and the food group, Sme, rose L399 or 8.3 per cent to L5,199. Rinascente, which belongs to the Agnelli group, remained in demand, rising L699 or 11 per cent to L6,999.

PARIS rebounded in the afternoon on position-squaring ahead of today's holiday. There were also reports of selective US buying through the Paris office of a US broker. The CAC-40 index came off the day's low of 1,780.07 to close up 11.81 at 1,798.46 in moderate turnover of FFr1.886bn.

The CAC-40 index was pushed up by buying of stocks that weigh heavily in the index. Saint-Gobain rose FFr20 to FFr535, LVMH rose FFr32 to FFr3,592 and Air Liquide added FFr22 to FFr748.

Peugeot dropped FFr4 to FFr496 after disappointing nine-month turnover figures published late on Monday. The results prompted James Capel to downgrade its 1992 and 1993 EPS forecasts to FFr70 and FFr80 respectively, from FFr90 and FFr80 previously.

Hachette fell FFr7.70 to FFr92.50. Dealers attributed the fall to the merger with Matra, as a result of which Hachette is expected to be removed from the CAC-40.

ZURICH saw buying in the dollar-sensitive multinationals, but higher money market rates weighed on banks as the SMI index rose 4.6 to 1,962.3. Ciba which announced a small joint venture with Degussa, ended SFr6 higher at SFr636.

AMSTERDAM closed mixed, supported by the dollar and a firm UK market. The CBS Tendency index rose 0.5 to 104.2. Unilever steadied after its recent weakness as the share edged up 50 cents to Fl 186.10.

STOCKHOLM rose as the dollar helped to offset profit-taking. The Affärsvärlden General index rose 1.7 to 737.2 in turnover of SKr530m after SKr511m.

Astra A fell SKr2 to SKr596 on profit-taking after its recent gains. The pharmaceutical company is due to report its nine-month earnings today.

Procordia B shares fell SKr1 to SKr182 after reporting nine-month results at the low end of market expectations.

COPENHAGEN rose with the bond market on the central bank's repo rate cut, as the CSE index closed 2.59 higher at 258.83. Unibank closed DKr11 or over 9 per cent higher at DKr130 and Den Danske Bank was up DKr14 or 6.5 per cent at DKr229.

OSLO was underpinned by lower interest rates, the strong dollar and modest gains in North Sea oil prices, as the all-share index rose 3.18 to 346.87. Norsk Hydro gained NKr1.5 to NKr132.5.

ISTANBUL rose 1.8 per cent on reports that a tax decree to encourage investments in mutual funds with an equity content would be sent to the cabinet. The 75-share index ended up 63.85 at 3,565.98.

FT-SE Actuaries Share Indices

November 10							THE EUROPEAN SERIES
Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1050.83	1050.90	1050.06	1050.14	1052.07	1053.38	1053.15	1054.50
FT-SE Eurotrack 200	1113.48	1114.60	1113.71	1116.50	1117.86	1118.13	1118.46	1117.70

	Nov 9	Nov 6	Nov 5	Nov 4	Nov 3
FT-SE Eurotrack 100	1043.29	1038.28	1038.93	1037.06	1038.76
FT-SE Eurotrack 200	1108.00	1111.70	1109.13	1105.82	1105.49

Base value 1000 (26/10/90) High/day: 100 - 1054.50; 200 - 1120.37 Low/day: 100 - 1049.55 200 - 1112.77

SOUTH AFRICA

De Beers went against the weaker trend to end R1 higher at R51.50. The gold index closed 37 down at 746 after touching 743 earlier. The all-share index fell 17 to 3,003. Industrials found support and the index lost only 2 to 4,011.

ASIA PACIFIC

Late buying by trusts lifts Nikkei off the day's low

Tokyo

SHARE PRICES failed to react to the Ministry of Finance's plans to encourage individual investors back into the stock market, and the Nikkei average closed only marginally higher on late buying by investment trusts, *writes Emiko Terazono in Tokyo.*

The Nikkei gained 20.06 at 16,437.11. It rose to the day's high of 16,518.46 in the morning on the Finance Ministry's decision to ease regulations on employees holding shares in their own company and to introduce a savings-type cumulative stock investment system. However, interest failed to last and the index fell to an afternoon low of 16,347.34 on profit-taking and futures-related selling.

Volume picked up to 210m shares from 185m. The Topix index of all first section stocks put on 5.60 at 1,255.06, but falls still led rises by 492 to 392 at the close, with 174 issues unchanged. In London the ISE/Nikkei 50 index eased 1.98 to 1,010.84.

Tokkin, or specified money trusts, and individuals sold stocks in the afternoon. However, activity remained thin on rumours that the Ministry of Finance was keeping a check on large-lot selling.

Traders expressed worries over possible selling by foreign investors, able to resist pressure from Japanese financial authorities to prevent investors from selling stocks. "European investors are looking to take profits on holdings," said one trader.

Banks were higher on last-minute buying. Industrial Bank of Japan gained Y40 to Y2,410 and Sakura Bank advanced Y30 to Y1,130.

High-technology exporters rose as the yen eased against the dollar. NEC added Y9 at Y657 and Fujitsu Y8 at Y518. But Casio Computer fell Y19 to Y956 on news that the company now expected an 8 per cent fall in pre-tax profits for the current year, against a previous forecast of an increase.

Reports of a 35 per cent fall in machine tool orders in September depressed machine tool makers. Toshiba Machine dipped Y4 to Y486. Mori Seiki lost Y20 to Y1,440 on selling by institutional and foreign investors, discouraged by Mori Seiki's forecast of a 96 per cent drop in annual pre-tax profits.

In Osaka, the OSE average shed 35.51 to 17,892.43 in volume of 11.1m shares. Nintendo, the video game maker, declined Y80 to Y9,760 on reports that it had indefinitely postponed sales of its CD-ROM game machine, currently under development with Sony.

Roundup

PACIFIC Rim markets reacted to domestic influences. Bombay was closed for a holiday.

AUSTRALIA fell on weaker commodity prices and a run on transport group TNT. The All Ordinaries index dropped below its support level of 1,400, to 1,389.5, before steadying to close at 1,397.6, down 21.9 in turnover of A$244.1m.

TNT, whose A$65m first-quarter loss disappointed analysts, plummeted 22 cents, or 30 per cent, to an all-time low of 53 cents in heavy volume of 4m shares. The fall in TNT and worries about GPA in the UK upset News Corp, joint owner with TNT of the aviation leasing group AWAS, and the stock fell 90 cents to A$26.40.

SEOUL ran into heavy profit-taking following its five-day rally. The composite index finished 9.95 down at 676.86, but was clear of the day's low of 669.10. A total of 71.3m shares changed hands, breaking Monday's record of 71.1m.

Brokers said worries that the Bank of Korea would try to siphon off cash in circulation, because of the influx of overseas money into the bourse, sparked the correction.

BANGKOK's small banks led the retreat for the second day on talk of stepped-up market surveillance to curb excessive speculation. The SET index shed 12.84 to 926.52 in turnover of Bt15bn, making a two-day drop of 3.4 per cent.

SINGAPORE firmed on brisk buying led by individual bargain hunters and another round of institutional demand. Trading again concentrated on OTC Malaysian shares, led by the Kamunting and Renong groups. The Straits Times Industrial index rose 22.26 to 1,438.14 in volume of 277.1m shares, after Monday's record 348.8m.

KUALA LUMPUR was broadly weaker in active trading as profit-taking continued. The composite index ended down 3.61 at 645.32 in turnover of M$641m, but well below the previous day's record high of M$916m.

HONG KONG closed slightly higher, with the Hang Seng index 5.17 up at 6,273.08 in low turnover of HK$2.5bn.

The most active stock was Cheung Kong, unchanged at HK$22.30, followed by HSBC Holdings, also steady at HK$66, and Hong Kong and China Gas, down 20 cents at HK$16.50.

TAIWAN ended mixed after early buying on hopes that the government would adopt a package of market-boosting measures petered out. The weighted index was finally just 4.39 ahead at 3,534.53. Turnover hit a three-year low of T$5.71bn.

MANILA's composite index dipped 8.49 to 1,337.17 as reports of rising imports discouraged a market already depressed by an electric power crisis.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	TUESDAY NOVEMBER 10 1992								MONDAY NOVEMBER 9 1992					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	1992 High	1992 Low	Year ago (approx)
Australia (68)	112.26	−2.2	109.93	88.27	93.15	107.96	−1.7	4.51	114.78	111.88	89.86	94.79	109.78	153.68	112.26	158.84
Austria (19)	139.02	−0.1	136.14	109.33	115.36	115.34	+0.5	2.45	139.19	135.68	108.97	114.95	114.73	186.70	139.02	172.44
Belgium (42)	135.42	+0.4	132.61	106.48	112.36	109.37	+0.7	5.63	134.84	131.43	105.55	111.35	108.57	152.27	134.41	133.40
Canada (114)	114.65	−0.7	112.27	90.15	95.13	104.94	−0.4	3.32	115.47	112.55	90.39	95.36	105.39	142.12	112.97	143.97
Denmark (33)	189.25	+1.1	185.32	148.82	157.03	157.52	+2.0	1.75	187.27	182.54	146.61	154.66	154.48	273.94	184.18	261.81
Finland (15)	69.43	+0.0	67.99	54.60	57.61	73.22	+0.7	1.93	69.40	67.64	54.33	57.31	72.67	89.80	52.84	87.56
France (100)	146.68	+0.2	143.64	115.34	121.70	124.02	+0.6	3.64	146.44	142.74	114.64	120.93	123.30	168.75	144.70	145.90
Germany (64)	104.28	+0.0	102.12	82.01	86.53	86.53	+0.5	2.66	104.23	101.60	81.61	86.08	86.08	129.69	102.51	113.01
Hong Kong (53)	255.45	+0.3	250.15	200.87	211.97	253.57	+0.3	3.55	254.66	248.23	199.36	210.32	252.81	261.48	176.36	175.29
Ireland (16)	123.98	−0.9	121.41	97.50	102.88	105.12	−0.4	5.18	125.16	122.00	97.99	103.37	105.51	173.71	123.98	162.72
Italy (77)	58.95	+4.6	57.73	46.35	48.91	59.82	+4.7	3.47	56.33	54.91	44.10	46.52	57.15	80.86	47.47	70.16
Japan (472)	101.06	+0.2	98.96	79.47	83.86	79.47	+0.6	1.06	100.86	98.32	78.96	83.31	78.96	140.95	87.27	140.39
Malaysia (69)	279.19	−1.1	273.40	219.53	231.65	271.45	−1.0	2.42	282.42	275.28	221.09	233.23	274.31	282.42	212.49	212.87
Mexico (18)	1523.70	+1.7	1492.09	1198.17	1264.30	5201.06	+1.6	1.15	1498.62	1460.78	1173.23	1237.65	5117.08	1789.77	1185.84	1344.18
Netherland (25)	150.40	+0.1	147.28	118.26	124.80	123.21	+0.5	4.60	150.27	146.48	117.65	124.11	122.57	169.70	147.88	147.65
New Zealand (13)	38.53	−0.4	37.73	30.30	31.97	39.02	+0.0	5.81	38.67	37.70	30.28	31.94	39.03	48.52	37.39	50.02
Norway (22)	131.95	+0.4	129.21	103.76	109.49	116.50	+1.4	2.08	131.36	128.04	102.84	108.49	114.87	192.95	131.36	187.13
Singapore (38)	199.94	+2.1	195.79	157.22	165.90	150.74	+2.2	2.19	195.81	190.86	153.29	161.70	147.53	229.63	179.65	211.62
South Africa (60)	140.34	+0.1	137.43	110.35	116.44	144.18	−0.6	3.54	140.13	136.59	109.70	115.72	145.12	263.60	139.37	263.69
Spain (48)	107.10	−0.7	104.87	84.22	88.86	92.69	+0.2	6.47	107.85	105.13	84.44	89.07	92.53	161.72	107.10	151.13
Sweden (31)	157.74	−0.9	154.47	124.05	130.89	140.35	+0.2	2.79	159.14	155.12	124.59	131.43	140.12	200.28	149.69	181.44
Switzerland (60)	108.05	−0.5	105.81	84.97	89.67	96.19	+0.2	2.23	108.64	105.90	85.06	89.73	96.01	122.37	95.99	98.49
United Kingdom (228)	163.16	+0.2	159.78	128.29	135.37	159.78	+0.7	4.60	162.78	158.67	127.43	134.42	158.67	200.07	162.78	182.96
USA (522)	171.20	+0.0	167.65	134.63	142.06	171.20	+0.0	2.97	171.13	166.81	133.98	141.34	171.13	173.39	160.92	161.35
Europe (780)	132.22	+0.3	129.47	103.97	109.71	119.30	+0.8	3.94	131.85	128.52	103.23	108.90	118.39	156.88	131.85	143.95
Nordic (101)	144.20	−0.2	141.21	113.39	119.65	120.97	+0.8	2.42	144.49	140.84	113.12	119.33	120.02	188.52	141.24	183.67
Pacific Basin (713)	106.43	+0.1	104.22	83.69	88.31	85.37	+0.5	1.42	106.34	103.65	83.25	87.82	84.95	141.97	93.70	141.54
Euro – Pacific (1493)	116.86	+0.2	114.44	91.89	96.96	98.97	+0.6	2.57	116.66	113.72	91.32	96.34	98.38	145.21	113.80	142.85
North America (636)	167.68	+0.0	164.21	131.88	139.16	166.70	+0.0	2.98	167.67	163.44	131.28	138.50	166.66	170.49	158.70	160.19
Europe Ex. UK (552)	113.36	+0.3	111.01	89.16	94.09	97.27	+0.8	3.48	113.02	110.16	88.49	93.35	96.48	132.98	112.24	120.81
Pacific Ex. Japan (241)	159.17	−0.6	155.87	125.16	132.09	146.20	−0.4	3.64	160.10	156.05	125.36	132.23	146.76	175.31	149.00	152.63
World Ex. US (1685)	117.90	+0.2	115.45	92.72	97.83	100.91	+0.6	2.60	117.71	114.74	92.16	97.22	100.33	146.91	116.18	144.90
World Ex. UK (1979)	132.27	+0.1	129.53	104.02	109.76	118.84	+0.3	2.54	132.15	128.81	103.46	109.15	118.48	150.58	127.21	146.16
World Ex. So. Af. (2147)	135.03	+0.1	132.23	106.19	112.05	122.21	+0.4	2.75	134.89	131.48	105.61	111.41	121.77	153.05	130.04	148.61
World Ex. Japan (1735)	154.11	+0.1	150.91	121.20	127.90	147.53	+0.3	3.33	153.99	150.10	120.56	127.19	147.16	165.40	151.93	155.55
The World Index (2207)	134.96	+0.1	132.16	106.13	111.99	122.46	+0.3	2.75	134.81	131.41	105.54	111.34	122.03	153.70	130.66	149.37